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HOW BRITISH ISLAND TAX HAVENS ACCOMMODATE FINANCIAL CRIMINALS?

HISTORICAL PERSPECTIVE 1956-2020.

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Abstract

Master's thesis regards British tax havens located on the islands and the features they possess making them an attractive place for criminals to store their ill-gotten wealth.
There are fourteen British Overseas Territories, seven of them are tax havens. Territories include British Crown dependencies such as the Channel Islands, Jersey, Guernsey and the Isle of Man, British Overseas Territories among which the most significant tax havens are the Cayman Islands, Bermuda, British Virgin Islands, and independent former British Imperial colonies such as Hong Kong, Singapore, the Bahamas, Bahrain and Dubai.
Financial criminals that store wealth in those places can be shared into three big groups: priests, corrupted public figures and organized crime groups (such as narcotics cartels, human traffickers, wildlife smugglers, etc.). All these groups were enabled to store their wealth due to specific legal and political changes that occurred in the United Kingdom and in British colonies starting from 1950s.
Therefore, this master's thesis explains how for the past seventy years the United Kingdom has been transforming itself from the global colonial empire, deriving its strength from the army and colonial tax exploitation to global financial power, deriving its strength from financial regulations exploitation. To document this, I have applied scrupulous methodology analyzing scientific, press and investigative journalism articles, stretching from as far as 1880s until today.

Tax havens arose around two, cultural-historical centers: first is small, resources-poor European countries (Holland, Ireland, Switzerland), second is British islands colonies. Transformation of these islands into tax havens started as a response to British former colonies declaring independence and white British settlers no longer having a safe place to store their wealth. From this time onward, United Kingdom had undertaken deliberate legal and political changes to allow global scale financial operations to be conducted from the Overseas Territories. These operations may contain money laundering, tax dodging, tax evasion, opening shell companies, concealing legal and illegal wealth behind trusts. Britain's financial center has been also a big beneficiary of the massive flight of Russian cash since the fall of the Soviet Union. London and British tax havens, especially British Virgin Islands, remain the Western capital of choice for Russian officials and oligarchs who flaunt their ill-gained money. Blooming financial sector lead, in consequence, to the fictionalization of developed economies in the last two decades at the expense of industry and agriculture.

Services offered by tax havens are proved to be so competitive and sought after by various world super-rich, wealthy and/or criminals, that none of the parties involved, be it British Parliament, indigenous inhabitants of the Territories or clients, are interested in compliance, transparency or regulation of tax havens.

Keywords

Tax havens, offshore financial centres (OFC), financial crime, money laundering, British Overseas Territories, British Virgin Islands, Cayman Islands, corruption, organised crime, island mentality, colonial economics, British politics.

Additional information

Economic History thesis

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LIST OF ABBREVIATIONS

AML – anti-money laundering

BOT – British Overseas Territories
BVI – British Virgin Islands

FCA – Financial Conduct Authority in the UK, regulating all financial services

FinCEN - The Financial Crimes Enforcement Network. It is the U.S. Financial Intelligence Unit responsible for Anti-Monay Laundering and Counter-Terrorism Financing

IMF – International Monetary Fund

OT – overseas territories aka tax havens

PEP – politically exposed person

SAR – Suspicious Activity Report – a file a bank worker is filing to governmental tax authorities if a financial crime has been observed

UK – United Kingdom

1. INTRODUCTION

The British Empire – for over three hundred years Britain ruled, its armies conquered, and its bankers proclaimed the might of its currency. One day it all begun to fall apart: one by one countries declared their independence and no amount of force could reverse it. British elites, seeing their diminishing fortunes and privileges wane, begun to search for a new role in a changing world, and they found one in finance. Britain transformed from a colonial power to a modern financial power, with this transformation shaping the world we live in.

Colonialism in an economic sense was a system of a global looting: vast riches were siphoned out of poorer countries into the hands of the conquerors, either enriching themselves or adding to their existing wealth. United Kingdom's colonial Empire derived its riches from colonial robbery: the land and labour stolen in India, Ireland, America and Africa, and humans stolen by slavery.

During the British Empire, the City of London was the biggest global financial center, so called "governor of the imperial engine". All the countries within the Empire used pound sterling and City coordinated the global money flow. With the decline of Empire British commercial interests across the globe were under threat.

In 1956 Egypt nationalised the Suez Canal. Within hours British bomber planes attacked five Egyptian key cities, including Cairo. However, the United States, followed by Soviet Union, were opposed to the invasion, and put pressure on Britain and France to withdraw their troops. President Dwight Eisenhower declined US patronage; issue has been brought in front of UN General Assembly. United Kingdom was humiliated and lost its leading role as one of the world's leading powers. Following the Suez Crisis there was a run-on pound sterling – as financiers withdrew their money from Britain, the value of the pound decreased. To protect the value of the pound – Britain limited its banks overseas lending. That resulted in banks inability to invest abroad (IMW, 2021).

The British Empire had sunk. White Britons and other Europeans with colonial investments and property liquidated their assets – assets previously extracted from the land and labour of their colonised subjects – and, where possible, sent the proceedings abroad. An enormous outflow of money from the late colonial world began – much of it fuelling the expansion of tax-haven business. To accommodate this money, the City of London adapted to the new global geopolitical situation. It has learned to provide to the rest of the world something that nobody yet had in offer – a place to store their illegal funds in a trusted, secret and well-serviced environment.

White settlers in the British colonies of Kenya and Rhodesia began sending funds to the Bahamas and the Channel Islands. Often, former colonial officials and businessmen not only sent their money to British islands but decided to settle there themselves: in the early 1960s, affluent Britons retreating from empire settled in Jersey, while later in the decade, Malta sought to attract imperial returnees as permanent settlers through special tax incentives as well. Same happended for the French empire – white settlers from Tunisia, Morocco and Algeria and French Indochina started to send their money to Switzerland, often phisically relocating to Monaco (Ogle, 2020).

These Overseas Territories are last remnants of British Empire till this day. Seven of them are bona fide tax havens: Bermuda, The British Virgin Islands, Turks and Caicos Islands, Anguilla, the Isle of Man, Jersey and Guernsey.

This master's thesis will synthetise existing knowledge and link the enormous illicit capital flow from the global market to tiny, British, islands-based tax havens. Work aims to explain processes behind the illegal money flow and how it influences the rest of the economy. Work is written from a historical perspective starting from the decline of the British Empire in mid 1950s until the present year. It is divided into thematical chapters tackling tax havens dealings from various perspectives. Hence, the Reader will find a chapter about anti-money laundering law and a chapter describing how international mafias bypass this law and locate their money in BOTs. At the end, the Reader can familiarize themselves with the channels through which we learned about all these wrongdoings, as major sources of information are the tax havens leaks.

My attention focuses on countries that try to attract proceeds of crime through the offer of financial services to criminal organizations abroad. We leave aside the broader question of the possible role of off-shore centers in generating and facilitating international financial crises, as well as tax avoidance by corporations – they are not a focus of this master's thesis.

From the political point of view, the process of decolonisation has never ended, as Britain still rules over fourteen Overseas Territories and three Crown dependencies. Island colonies morphed from slave-populated islands into financial centres servicing criminals and the super-rich.

'National borders are… imagined projections of territorial power'

Baud and van Schendel 1997

1.2 LITERATURE REVIEW

Palan (2009) shares historical evolution of instruments of tax havens into four distinct phases: from the late XIX cent. to the 1930s has had low or zero taxation for non-residents, easy methods of incorporation, and legally-protected secrecy. Then we see historic growth in tax havens from World War I through to the early 1970s. During these decades a small number of states, led by Switzerland, began to develop tax haven regimes as their intentional developmental strategy. Third period occured from early 1970s up to the late 1990s when the number of tax havens rose dramatically, as did the scope, planning, and sheer volume of financial assets passing through them. The defines the current phase of tax haven history, as starting in 1998 with the publication of an OECD report on harmful tax competition. The crisis since 2007 has further intensified the pressure on tax havens and prompted European Union to pass significant AML legislation.

Dharmapala and Hines (2006) described tax haven a as a small country, not a member of any international organization, providing low taxation and being a well-governed, with low population (below 1m) enjoying a high GDP per capita and where services have a very large share in GDP. Mara (2015) adds that the GDP per capita in almost all these countries is higher than the world average. Mean of services as a percentage of GDP is approx. 75%, compared to the approx. 54% of world average excluding tax havens. However, Schwarz's (2011) research proved that the poorer the tax haven is the more money-launderers it attracts, as its size is not attractive enough to lure big corporations interested in legitimate tax avoidance. Author proves that tax evasion and money laundering behave as complements.

Mara (2015) showed that more than half of the tax haven jurisdictions have an elevated level of GDP/capita in terms of purchasing power parity. In these countries, per-capita welfare is high enough to allow for smaller government revenues by means of cutting corporate tax rates for offshore companies, but the natural resources are insufficient to derive revenue from agriculture or industry. The corporate tax rate is another important factor – many companies are registered over there to avoid high domestic tax rate. Despite smaller countries having more incentives to become tax havens, previous studies (Desai et al. 2006) show that it is territorially bigger tax havens that firms seek, as larger territory enables them to justify their tax avoidance in case of the host government's suspicion.

Schwarz (2011) continues his analysis that today's tax havens have much lower corporate tax rates than non-tax havens, their official language is almost always English, they have greater democratic control and stronger rule of law and are more open than non-tax havens. They are always small countries with dense populations. International organizations membership does not play a significant role for them. Financial sector in tax havens is always a dominative sector of the economy, and is much more important than the financial sector in non-tax havens.

Zucman (2015) presents the results of research on tax havens deepening world inequalities. His analysis is based on data from central banks of different countries, comparing the financial liabilities of banks with financial assets. The difference between them is hidden in tax havens in various forms, for example in the form of mutual fund shares, in Luxembourg, the Cayman Islands and Ireland. His sharp criticism is mainly Switzerland, which hides more than 1/3 of the wealth of the world. However, countries that their highest share of financial wealth is stored in tax havens are Russia (estimated 50%) and Gulf countries (up to 57%). While OECD countries and their dependencies show the opposite trend of being the wealth storages.

What is inevitably connected to the tax haven operations is money laundering. Money laundering involves taking criminal proceeds and disguising their illegal source as legal for the financial gain. Laundering activities go through three major stages which are called the placement, layering and integration. Money laundering possesses serious negative effects on the economy of a country, businesses and individuals. It can have potentially devastating economic, security and social consequences and these includes: high rate of crime and corruption. The risks for both criminal home country and money laundering country include reputational risk and weakening of financial institutions, with loss of tax revenue of the home country (Guyeni-Boateng, 2021).

There is a negative correlation between crime rate in the country and the role played in money laundering services. Masciandaro and Castelli (2012) provide arguments that countries or regions with fewer resources are potentially less attractive to criminals and will therefore be less vulnerable to the threats posed by money laundering. Such countries will thus be more likely to offer financial services to organized crime. As a result of this process, some countries which do not bear the costs associated with money laundering become predisposed to adopt a regulation that facilitates money laundering. The other side of the coin is that both criminal organizations and those who bear the costs of money laundering will "naturally" tend to be situated in countries other than the one where the regulation is adopted.

What tax havens do is to suck funds from unstable, undemocratic regions, depriving them of national income but directing it to the pockets of the very few who stole public funds. Recent research has begun to shed light on this criminal procedure of attracting illicit money to tax havens. Andersen et al. (2017) show that 15% of the windfall gains in petroleum-producing countries with autocratic rulers is diverted to accounts in tax havens. A recent World Bank report (Andersen, Johannesen and Rijkers, 2020) shows that aid disbursements to highly aid-dependent countries are strongly associated with an increase in bank deposits to tax havens. Also, Ndikumana (2020) argues that corruption has had a negative impact on the citizens of developing countries in Africa, depriving governments of the resources to invest in public services such as education, clean drinking water, health care, childcare services and sanitation systems.

a) Historical evolution of tax havens into centres servicing criminals

The procedure has long history, with known examples from ancient Athens and XVII cent. Pirates storing their wealth in Pacific islands. However, the birth of modern tax havens started when first legislation regarding limited liability companies alongside with profit and income tax for physical persons started in XIX cent. England and its colonies. It was then adopted by New Jersey and Delaware in 1880 and quickly attracted investors to the US North (Masciandaro and Castelli, 2012). Palan (2006) adds to the story explaining that New Jersey in 1880 was in deficit. A corporate lawyer from New York, Mr. Dill, persuaded New Jersey's Governor, Leon Abbet, to back his scheme of raising revenue by imposing a franchise tax on all corporations headquartered in New Jersey. Laws of incorporations were at that time still highly restrictive in Anglo-Saxon countries (a long term effect of the 1720 South Sea bubble). Therefore, corporations started to headquarter themselves due to its liberal incorporation laws, and to some extent by its relatively low rate of corporate taxation. Following the success of New Jersey, the Delaware legislature copied the laws in their new General Incorporation Act in 1898.

In Europe, the mass movement of investors moving their funds to Switzerland started after introducing higher national taxation to rebuild the economies after the WWI. However, from 1950s. there is a visible shift in moving capital into British colonies: Bermuda, Bahamas (independent since 1973) and Cayman Islands. Another significant step was an introduction of Swiss Banking Act of 1934, thus making it a crime to disclose bank accounts' owners data to the authorities (Mara, 2015).

Thus, tax haven countries have enjoyed very rapid economic growth rates that coincide with dramatic inflows of foreign investment. Tax havens averaged 3.3 % annual per capita real GDP growth from 1982 to 1999, whereas the world averaged just 1.4% annual real per capita GDP growth over the same period. The period of globalization has been favourable for the economies of countries with very low tax rates (Hines, 2005).

Most of the significant tax havens existing today, according to Palan (2009), have developed around two principal geo-political centers. One pole has evolved with close links to the City of London. This includes British Crown dependencies: Channel

Islands, Jersey, Guernsey and the Isle of Man, British Overseas Territories among which the most significant tax havens are the Cayman Islands, Bermuda, British Virgin Islands, Turks and Caicos and Gibraltar, and recently-independent British Imperial colonies such as Hong Kong, Singapore, the Bahamas, Bahrain and Dubai. Less significant in terms of impact, but more numerous, are newly independent British Pacific territories. The other pole is located in Europe and consists of the Benelux countries - Belgium, Netherlands and Luxembourg, Ireland, Switzerland and Liechtenstein. The only other significant tax havens today which are not part of these two poles are Panama and, to a lesser extent, Uruguay.

Van Fossen (2016) argues that offshore financial centers (OFCs) are in fact borderlands in which transnational capitalist class in the emerging Asia-Pacific, especially in China, “has developed symbiotic relationships with, increasing their vitality”. He proves that metropolitan states such as China transfer billions of dollars to offshore tax havens such as the British Virgin Islands in the Caribbean or Samoa in the Pacific. Yet the existence of tax havens and their usefulness for capital depend on their being able to pass laws and hold assets within the jurisdiction of their borders and their ability to defend these borders against taxation and regulation by metropolitan states.

However, beyond the protection of the rule of law the relationship between citizen’s political rights and money laundering legislation is weak. Although criminals are primarily concerned with the concealment of the sources of illicit funds, they might also benefit from additional tax evasion tax havens offer. Schwarz (2011) study finds that countries which face the possibility of more terrorist attacks adopt fewer or less stringent regulations against money laundering. Researcher proves that tax evasion and money laundering behave as complements. Tax havens behave uncooperatively in implementing regulations to increase the probability of detecting money laundering, as stricter regulations increasing the probability to detect money laundering could impede the business model of tax havens. In conclusion, only poorer tax havens, which lack credible reputation, try to provide an environment accommodating economic crimes.

Galaz, Crona et al. (2018) researched focus on how illicit money enlarges environmental crime, namely the overfishing from the oceans. He calculated that while only 4% of all registered fishing vessels are currently flagged in a tax haven, 70% of the known vessels implicated in illegal, unreported and unregulated fishing are, or have been, flagged under a tax haven jurisdiction. Belize and Panama serve as the top two “flags of convenience” states. Also, between October 2000 and August 2011, 69.9% of all investigated foreign capital to nine focal companies in the soy and beef sectors in the Brazilian Amazon was transferred through one or more tax havens, Global fisheries experience flows of furtive capital, while the Amazon exemplifies flows of fictitious capital in the form of foreign loans and advance payments via tax havens to companies operating in the soy and beef sectors.

The policy of offering foreigners very low tax rates is potentially costly to tax haven governments, if doing so reduces tax collections that might otherwise have been used to fund worthwhile government expenditures (Hines 2005). Analyses in other sectors show that even though transfers via tax havens are associated with reputational risks, they also increase cash flow and profits, and lead to a reduced effective tax rate, which in turn sends positive signals to investors and stimulates growth. Often, a company is headquartered in one tax haven but incorporated in the other (Galaz, Crona et al., 2018).

McFarland and Curry (2013) pinpoint that Governments in the Global North (such as the UK, Canada and Australia) despite announcing to crack down on tax havens, simultaneously significantly cut off staff positions in governmental taxation offices, staff is also underpaid. Maher (2013) states that governments’ strong rhetoric often has nothing to do with their actions. He provides an example of Canadian Revenue Agency that uses aggressive language against tax havens and Canadians who are judged to use them improperly, but “only intense parliamentary pressure forced it to admit in 2013 that of the 106 Canadians revealed in the LGT case to hold more than C$100m in Liechtenstein accounts, not one had been or would be charged.” It is visible that governmental bodies actions do not follow their word declarations. Van Fossen (2016) writes explicitly that maintaining the value of tax compliance and making statements about the dangers of noncompliance increase political support, brings up employee morale and strengthens public confidence. But it does not combat illicit money flow or money laundering in tax havens. Even if the onshore authorities have extensive information about an offshore structure, it is either gaps in their knowledge or deliberate ignorance that prevents effective enforcement of OFCs control.

b) Reasons behind the capital flow

What is inevitably connected to the existence of tax havens is a capital flow. As Ogle (2020) explains, the reasons behind late colonial era British capital flow related to the collapsing empire, thus British privileges. Afraid of not having such high social status in newly independent African and Asian countries, European elites pondered where to stash their money after decolonisation. Their choices were shaped by fiscal circumstances in both the colonies and the imperial metropoles. By the time former colonies were gaining their independence in the 1950s and 1960s, tax rates in metropolitan countries like Britain and France had reached considerable levels for the wealthy to fund the post-war welfare states.

In colonies, taxes on white Europeans had generally been much lower, with settlers, supported by lobbyists back home, opposing progressive tax regimes across the empire for as long as possible. When higher taxes finally arrived, Europeans proved adept at cheating: officials often complained of the difficulties of collecting colonial taxes among the white population (Ogle, 2020).

The driving forces behind capital flight include actual or feared monetary instability, confiscatory taxation, war and revolution. Masciandaro and Portolano (2003) argue that tax havens are structurally different from other countries. Firstly, the utility function of countries that favor money laundering is positively correlated to the existence of criminal activities abroad. Secondly, the utility function of such countries is not influenced by the negative effects of criminal activity, i.e., they do not bear the negative consequences of that criminal activity.

The earliest 'modern' example was the largescale movement of French funds to London during the Franco-Prussian war. The first major episode was the flight of capital during World War I out of France, Italy and the Central Powers, into the neutral countries – principally Switzerland, the Netherlands and Sweden. The capital movements were 'accommodated' to a large extent by speculators in the neutrals buying the belligerent currencies at big discounts to their theoretical gold pars in the hope that large gains would be made once peace was restored (Ogle, 2020).

Many trace the origins of the practice to a series of rulings in the British law courts, especially 1929 case of *Egyptian Delta Land and Investment Co. Ltd. V. Todd*. It was demonstrated that although the company was registered in London it did not have any activities in the UK and hence was not subject to British taxation. This case created, argues Picciotto, "a loophole which, in a sense, made Britain a tax haven". Companies could now incorporate in Britain but avoid paying British tax. The ruling of the British courts proved significant because it laid down the rule not only for the United Kingdom but also for the entire British Empire, a point later exploited by jurisdictions such as Bermuda and the Bahamas and perfected in the 1970s by the Cayman Islands (Palan, 2009).

In general, the post war industrial world has not been struck by the huge waves of capital flight driven by political fears which marked the years 1914–1940. Van Fossen (2016) identifies that from 1940 to 1972 a dramatic rise in left-wing programs and social democracy, financed by progressive taxation, accompanied strong economic growth and decreasing internal class inequality.

Later, 1970s were a period of large movements of flight capital driven primarily by inflation caused by The Oil Crisis. During the 1973 Arab-Israeli War, Arab members of the Organization of Petroleum Exporting Countries (OPEC) imposed an embargo against the United States for sending weapons to Israel. As a result, money started to flow from Britain, France and Italy, reflecting the high inflation in these countries and the non-indexation of their tax structures. During 1978, the spectre of high and rising inflation in the USA caused international funds to flee the dollar. Then, in October 1979, USA has frozen Iranian assets as a response to Iranian Revolution, causing another massive money flow (Brown, 1987).

Scholars agree that the Great Recession of 2007-2009 (Rao, 2020) was a watershed moment, crystallizing the trend toward labour market uncertainty, even for highly educated workers. Hence, since 2008 we see a rising tide of anti-migrant, anti-refugee, anti-anybody different sentiments in Europe and United States, especially amongst working and lower middle-classes men connected to their declining resources. That is despite of the rising cost of living, including childbearing and education costs. As steady employment becomes more precarious globally, and we brace for a wave of unemployment in the wake of Covid-19, tax havens serve as an important element of global financial system. Despite penalties for banks allowing illicit money flow reaching historically high levels in 2019, Burns (2020) and Pol (2020) point out that they penalize the banks clients – businesses and citizens – more than financial criminals, as banks are much easier targets for regulators than organized crime.

Since a decade, China is the greatest source of illicit international financial flow – both to tax havens and other destinations. China's firms are likely to incorporate their global production operations in OFCs and to raise capital for global expansion through OFC entities (Ning and Sutherland, 2012). New wave of money flow from China is composed from those, leaving the Hong Kong after Chinese clapdown on its democracy, starting in 2019. In 2019 alone already $5bn left the former British colony, being mostly transferred to Canada and the UK together with approximately 300,000 peaople leaving Hong Kong on Overseas Passports (Butler, 2020). Adding to that, we shall not forget about enormous money flow from former USSR conutries: 13 post-Soviet republics and the Russian Federation. Tax Justice Network (2018) states that is the BVI is the second most popular destination for illicit money leaving Russia.

1.3 METHODOLOGY

This master's thesis is an inter-disciplinary study that combines methods of economic history, economics, criminilogy, banking, finance, economic geography and political studies. Research employs quantitative and qualitative varieties of data and combines both inductive and deductive elements. It represents a holistic approach when the whole phenomenon under study is understood as a complex system that is more than the sum of its parts. Thesis uses both primary and secondary sources, building on the existing academic literature on the topic.

Research question I: Why did the British tax havens become one of the most successful offshore financial centres and how did they manage to maintain comparative advantage in financial services?

Research question II: What is the role of British tax havens in global financial crime, with the emphasis on money laundering?

British island tax havens for the 2021 situation are as follows: 1. British Virgin Islands (British overseas territory), 2. Cayman Islands (British overseas territory), 3. Bermuda (British overseas territory) (Top 3 out of the top 10 biggest enablers of global corporate tax abuse – Inman, 2021), 4. Two British Crown dependencies: the Bailiwick of Guernsey and the Bailiwick of Jersey (they will be added to EU tax havens blacklist after the Brexit deal but not later than end of 2021 – Partington, 2021) 5. British Crown Dependency the Isle of Man. And their situation will be predominantly discussed in this dissertation.

At the end, the secondary analysis of studies from 2000 to 2020 was conducted in the investigation by using keywords to determine the characteristics of the legal mechanism for organizing the functioning of tax havens. A systematic review of the literature on money laundering was carried out with a focus on Academia, Springer and Science-Direct databases.

2. THE LONDON EURODOLLAR MARKET CHARACTERISTICS

IN 1906, the British House of Lords heard a legal case that would have important implications on international taxation in the following decades. De Beers Consolidated Mines, founded in South Africa in 1888 by British business magnate Cecil Rhodes, had been formed under South African law, and its head offices and mining activities were at Kimberley, South Africa. Yet, as the House of Lords argued that the "directors'" meeting still took place in London, and therefore this was where the real control was exercised, where important business decisions were made. Lords ruled that De Beer was a resident of Britain and was liable to British tax, not South African. Similar precedent happened in 1907 when Egyptian Delta Land and Investment Co. Ltd., which had been set up in 1904 in London, has moved its head quarters to Cairo, while being registered in Britain (Ogle, 2017).

It is assumed that in the late 1950s. representatives of private British banks came to the agreement with Bank of England, that if a British bank intermediates between the two non-residents in a foreign currency, most often US dollar, it means that this particular "intermediation" cannot be classed as activity in the United Kingdom. On the contrary, it is taking place "elsewhere", and cannot be limited in scope, as British pound is not involved. This way, the banks begin to create a market for US dollar in London called “the London-Eurodollar market” (Schenk, 1998). It can be considered the progenitor of the global financial system which exists today, for it started a shift in understanding of global finances – that the Breton Woods regulations can be bypassed when it comes to international capital movements, making it possible to return to the liberal internationalism and laissez-faire, known from before 1931 when the gold standard has been introduced (Burn, 1999). The fundaments of Eurodollars accumulation started earlier than been thought. High interest rates, banks self-regulation and changes in access to the forward exchange-market combined in mid-1955 encouraged the Midland Bank to innovate first.

The banks begun to create the market for dollars in London called the London Eurodollar market. To differentiate their Eurodollar activities from the domestic banking activities, banks kept two sets of accounts. The Bank of England, The UK regulator, declared that the London Euromarket accounts were not in London, not under British jurisdiction, and therefore it had no responsibility for regulating them. In other words, the United Kingdom’s central bank created a legal space allowing to pretend that the activity is taking space in another economy, different to the one that is really taking place. The activity is taken away from the place where it is regulated and taxed and pretending that it is happening “elsewhere” (Bell, 1973).

When the American banks realised that London offered the ability to avoid US regulations, they moved their international operations to the City. Around the same time that Americans were moving their international operations to London, another new financial space begun to emerge. In the last remnants of the Empire new financial activities started to take place. With access to large amount of offshore money, the Euromarket grew rapidly, reaching 500bn USD in 1980. In 1988 4,8tn USD, and by 1997 nearly 90% of all international loans were made through this market (Burn, 1999).

“The City of London, that state within a state which has never transmitted even the smallest piece of usable evidence to a foreign magistrate.”

Eva Joly, Norwegian anti-corruption campaigner, 2000

3. THE CITY OF LONDON

The City of London, London’s financial district is a “secret jurisdiction” in itself. It is run by an organisation called the City of London Corporation – a private company that performs all the duties of the local council, with the private police force and private courts. It is a separate entity to the Borough of London with separate head – The Lord Mer, who is distinct from the Mayor of London. Lord Mer show every November is the world’s oldest annual civic procession (Burn, 1999).

During the Norman Invasion in 1066 the City was the only portion of London William the Conqueror could not conquer. Therefore, the 1067 negotiated deal guaranteed the City its continued functioning, allowing it to this day to be exempt from numerous laws and obligations governing the rest of the country. City of London political system derives from Middle Ages. Its electorate is dominated by the private businesses operating within the City. Its Lord Mer is elected by the heads of Medieval guilds. They even have a representative in the House of Commons, who is the only unelected person there. His or her role is to report back to the City of London Corporation and to lobby British Parliament of behalf of the City. Such unique political entity does not, nonetheless, attract much attention. It remains a hidden antique steering British financial policy from behind the closed doors. “Those, who control money can pursue a policy at home and abroad contrary to that which is being decided by the people.” – Clement Attlee – UK Prime Minister 1945-51.

Today UK is the world’s largest provider of international financial services. The two large centers are the United States, with around 19% of the global market and the United Kingdom with its offshore jurisdictions, which have around 25% of the share of the global market. If we add financial centres ceasing to be British colonies relatively recently: Hong Kong (1997), Dubai Emirate (1971), Bahrain (1971), Singapore (1963), Cyprus (1960) the figure of British global financial influence rises to 40%.

4. THE BANK OF ENGLAND

At the heart of British financial system stands the Bank of England. Founded in 1694, it served as a model on which most modern central banks have been based. It is the second world oldest central bank after Swedish Riksbank, founded in 1668. It is now a central bank and financial regulator that controls the UK gold reserve and, since 1997, has set official interest rates. It uses its regulatory authority to help attract world's banks to London.

The project of the Bank of England have been born during the Commonwealth (1649-60) when United Kingdom was governed as a republic, and gained even more publicity after the defeat of Cromwell, during Restoration period. The first proposition of a Bank of England was made in July, 1691, when the Government had contracted £3,000,000 of debt in three years. At a time of the Common Council of London has been collecting something that is now called a land tax land-tax, which saw common councillors going round and soliciting from house to house. The first project was badly received, as people expected an immediate peace during Cromwell wars, and disliked a scheme which had come from Holland—"they had too many Dutch things already." As Walter Thornbury vividly depicts Bank's origins in his "Old and New London: Volume 1" masterpiece from 1878:

> "The English Jews, (…) were, as we have shown in our chapter on Old Jewry, our first bankers and usurers. To them, in immediate succession, followed the enterprising Lombards, a term including the merchants and goldsmiths of Genoa, Florence, and Venice. Utterly blind to all sense of true liberty and justice, the strong-handed king seems to have resolved to squeeze and crush them, as he had squeezed and crushed their unfortunate predecessors. They were rich and they were strangers —that was enough for a king who wanted money badly. At one fell swoop Edward seized the Lombards' property and estates. Their debtors naturally approved of the king's summary measure. But the Lombards grew and flourished, like the trampled camomile, and in the fifteenth century advanced a loan to the state on the security of the Customs. The Steelyard merchants also advanced loans to our kings and were always found to be available for national emergencies, and so were the Merchants of the Staple, the Mercers' Company, the Merchant Adventurers, and the traders of Flanders."

The bill to establish new bank passed English Parliament in 1691 but in the House of Lords (always the more prejudiced and conservative body than the Commons) the bill met with great opposition. Some noblemen imagined that the Bank was intended to exalt the moneyed interest and debase the landed interest; and others imagined the bill was intended to enrich usurers, who would prefer banking their money to lending it on mortgage. As Thornbury reckons (1878) “eventually the Lords, afraid to leave the King without money, passed the bill”. What followed "during many years the weight of the Bank, which was constantly in the scale of the Whigs, almost counterbalanced the weight of the Church, which was as constantly in the scale of the Tories." This bank became “the great company through which the immense wealth of London was constantly circulating”.

“If you don’t like it, there’s always a boat in the morning”

Jersey saying

5. TRANSFORMATION OF BRITISH OVERSEAS TERRITORIES INTO TAX HAVENS

From the 1960s onwards City of London institutions begun to establish offshore branches former outposts in the British Empire. Their aim was to create offshore centres with strong secrecy legislation in order to attract capital from across the globe. Establishment of London Euromarket enabled City of London banks to continue to exploit their colonial-era network and expertise. And the creation of secrecy jurisdictions gave banks access to large amounts cheap money. Thus, international banks were lured to set up branches in London and Overseas Territories in order to take advantage of this new system.

In 1960s. Cayman Islands, just South from Cuba, were a complete “backwater”. The folk stories go that mosquitos were so thick that they could suffocate cows. There was no developed market and no paid jobs. As much as British public opinion could be distanced from British slave plantations based in the Caribbean, placing British financial crime centre in Caribbean again saves the same purpose (Brown, 1987).

When the Bahamas declared independence from Britain in 1967, the offshore bankers relocated to the Cayman Islands. Accountants and lawyers from London arrived in the Islands and other thirteen British dependencies, and begun to draft a set of financial secrecy laws. In 1966 the Cayman Islands enacted a set of laws, including the Banks and Trust Companies Regulation Law, the Trusts Law, and the Exchange Control Regulations Law, and also its 1960 Companies Law, adopting in all these cases the classical tax havens model. Soon after the fourteen British Overseas Territories was named ‘secrecy jurisdictions’, as their main goal was to maintain clients’ secrecy. In 1970s. Cayman Islands transformed into full-fetched money-laundering tax haven, with South American drug cartels to be exchanged and invested by Cayman banks, tax evasion provided to international clientele, etc. They proved to be so successful that in 2008 the Cayman Islands were the fourth largest financial centre in the world (Freyet & Morris, 2013).

According to Dr Peter Maynard, former Bahamian Ambassador to the United Nations, a few events occurred in the past three decades, which negatively affected the image of The Bahamas. These included: Early 1970’s, the presence of Robert Vesco (international financial swindler wanted by the United States authorities) residing in The Bahamas. 1982, the crash of the Vatican’s Banco Ambrosiano with its branches in The Bahamas and strong Bahamian ties. In the 1980’s, with the image of drug trafficking and money laundering, The Bahamas gained a tarnished reputation. (Eddy, Sabogal, Walden, 1988).

The Bank of England was observing the developments from London. And noted in the report marked “secret” in 11th of April 1969: “We need to be sure that the possible proliferation of trust companies, banks, etc., which in most cases would be no more than brass plates manipulating assets outside the islands, does not get out of hand. There is of course, no objection to their providing boltholes for non-residents, but we need to be quite sure that in so doing opportunities are not created for the transfer of UK capital to the non-sterling area outside of UK rules.” Thus, the main concern of the Bank of England is evidently perseverance of British pound exclusively within sterling-using territories to have a control over accumulated financial assets.

Britain was not alone. The late 1960s also saw Singapore's emergence as a tax haven. With the French Indo-China War having escalated into the Vietnam War, by the mid 1960s there were increased foreign exchange expenditures in the region, but a tightening of credit occurred in 1967 and 1968, contributing to rising interest rates in the Eurodollar market. As a result, dollar balances in the Asia-Pacific region became attractive for many banks. Singapore responded by setting up incentives for branches of international banks to relocate to Singapore (Palan, 2009).

The relative success of European and Caribbean tax havens brought in new entrants to the game. The first Pacific tax haven was established in 1966, in Norfolk Island, a self-governing external territory of Australia. The Australian federal government sought consistently to block the development of the Norfolk haven, largely successfully for international purposes but not for Australian citizens. As Jason Sharman noted, though, once 'Norfolk Island set the precedent in 1966, Vanuatu (1970-71), Nauru (1972), the Cook Islands (1981), Tonga (1984), Samoa (1988), the Marshall Islands (1990), and Nauru (1994) have increasingly taken the standard route of copying legislation from the current leaders in the field and then engaging in fierce competition for business that has often generated only the thinnest of margins'. All these havens introduced familiar legislation modelled on the successful havens, including provision for zero or near-zero taxation for exempt companies and non-residential companies, Swiss-style bank secrecy laws, trust companies' laws, offshore insurance laws, flags of convenience for shipping fleets and aircraft leasing, and more recently establishing advantageous laws aimed at facilitating e-commerce and online gambling.

Another important centre to have developed later was the Irish Financial Services Centre in Dublin. Following the success of its Shannon export processing zone, established in 1959, Ireland established the Irish Financial Services Centre in Dublin in 1987 with its favourable tax regime for certain financial activities and low corporate tax rate (12.5% in 2008).

Tax havens also started to extensively use trusts to attract global super-rich. The concept of trust derives from Medieval England crusade practices when departing knight had his possessions entrusted with a chosen person or organization, concealing true wealth beneficiary in the event of claimants wanting to have it or false captors demanding ransom money if the knight had been captured in a battle. Trust plays with the concept of ownership making wealth both belonging and not fully under the power of the possessor. However, nowadays charitable trusts are regularly set up for the purposes of international tax evasion and hiding both assets and liabilities "off-balance sheet", as happened with Enron and the collapsed British bank Northern Rock (Christensen, 2006).

Nowadays, in British offshore jurisdictions no qualifications are necessary to be a trustee. Anyone can set up a trust and become a trustee. There is also no registration of trusts. The only people that know about the creation of the trust are a settler and a trustee, but they have no financial reporting obligation to register or notify about it. Arts, antiques, yachts, horses, they “belong to nobody”. Trusts are the foundation on which the complex offshore structures are created, which are almost impossible to penetrate. Trust might be on the top of the structure managing shell companies underneath it, while both trustees and beneficiaries are its different locations.

As countries around the world begun to deregulate and open their economies, it became easier to move capital to tax havens. As empires gradually came undone over the course of the mid XX century, the emerging offshore world replaced empire’s multi-ethnic colonies. The New Deal, the European welfare state, decolonization, development in the so called “Third World” and the Bretton Woods system were nation-state-based and government-driven projects. The offshore world emerged precisely at the moment when political map of the developed world started to be dominated by nation-states. This offshore world contained multiple elements (Ogle 2017; Galaz, Crona, Dauriach et al. 2018): tax havens, with their relaxed regulations and minimal taxes; flags of convenience registries – allowing a ship whose owner lives abroad to be registered under and subject to the laws of another country; offshore financial markets and banking institutions – offering investors advantages absent in national financial markets; and foreign trade or special economic zones, giving incentives designed to attract foreign investment. This archipelago-like landscape allowed free-market capitalism to flourish on the outskirts of a world starting to be dominated by more interventionist nation-states.

Today, as much as half of all global offshore wealth may be hidden in Britain’s offshore jurisdictions. One of the biggest looser is Africa, whose capital fly mostly to Overseas Territories. Starting from Sudan in 1956 and Ghana in 1957, one by one British colonies throughout African mainland declared their independence, lasting for the next decade, ending with Namibia in 1990. As British former colonial Empire declined, the capital has moved into new, financial empire, rising exactly at the same time. Sub-Saharan external debt at the end of 2008 was $177 billion. Yet the wealth these countries elites had moved to British Overseas tax havens between 1970-2008 is estimated at $944 billion. As capital moved offshore, African nations borrowed money from international banks at higher interest. It can be said secrecy jurisdictions are starving developing nations from their wealth and their tax revenues.

When countries complain to Britain about offshore financial practices, Britain claims that these islands are independent when it suits them to pretend that these places are independent. Nevertheless, Britain appoints the governor, appoints their senior officials, has military bases, is responsible for foreign relations and defence, and also they can veto their legislation. In fact, United Kingdom is controlling tax haven islands, allowing them a little bit of political space and non-intervention in domestic affairs. British are very good in communicating their desires via informal means and discussions, which shifts the attention from true decision-makers in London to their offshore-based colonial puppets. “People kind of understand how it works” when Britons are involved in the conversation behind the closed doors on the acceptance or disagreement against the issue that is never given to the public. By keeping its power hidden, Britain is thus able to claim these jurisdictions are politically autonomous.

5.1 UAE AS A UK-AFFILIATED TAX HAVEN

In 1972 The Bank of England issued a licence to the Bank of Credit and Commerce International. Within ten years BCCI grew to the seventh largest banks in the world. However, ten years later BCCI was bankrupt, despite being privately owned institution by Zayed bin Sultan Nahyan (77% ownership), Abu Dhabi sheikh for 33 years, a founder of United Arab Emirates. BCCI was a "stateless bank that operated in the United States and about 70 other countries, chartered in Luxembourg, run by Pakistanis, owned by Arabs, headquartered in Britain and serviced by outposts in the Cayman Islands” (Lohr, 1991), and its case demands further description.

History of UAE relates to oil. The discovery of oil in 1958, and the start of oil exports in 1962, led to frustration among members of the ruling family about the lack of progress under Sheikh Shakhbut’s rule, who was deposed in a bloodless palace coup four years later. Although it is not entirely clear from the historical record, the coup appeared to have the full backing of the Al Nahyan family and the support of the British, with the Trucial Oman Scouts providing safe transport for Sheikh Shakbut out of Abu Dhabi. In January 1968, the UK's Foreign Office Minister Goronwy Roberts visited the Trucial States, a prelude to UAE, and announced to its shocked rulers that the United Kingdom would abrogate its treaties with them and intended to withdraw from the area. In a seminal meeting on 18 February 1968 at a desert highland on the border between Dubai and Abu Dhabi, Sheikh Zayed and Sheikh Rashid bin Saeed Al Maktoum of Dubai shook hands on the principle of founding a Federation. However, British never left (Said Zahlan, 1978).

In 1971, after occasionally difficult negotiations with the other six rulers of the Trucial States, the United Arab Emirates was formed. Zayed was appointed the first Abu Dhabi Ministerial Council. By this point he also held the portfolios of Defence and Finance. He was reappointed president on four more occasions: 1976, 1981, 1986, and 1991. In 1974. Zayed settled the outstanding border dispute with Saudi Arabia by the Treaty of Jeddah by which Saudi Arabia received the output of the Shaybah oilfield and access to the lower Persian Gulf in return for recognising the UAE (Heard-Bey, 1996).

Late Zayed bin Sultan Nahyan and current UAE president and emir of Abu Dhabi Sheikh Khalifa II (72) knew the entire British royal family, were frequent visitors in the United Kingdom and UAE became British closest ally.

The Deputy Director of the CIA, Richard Kerr confirmed that the CIA “did use BCCI to support CIA activities overseas”. Today it is known that prior to ceasing operations in 1991, the bank was involved in fraud and money-laundering and terrorist financing. Apparently, the Bank of England, knowing about the procedure, as numerous whistle-blowers have contacted them at least 15 months prior to the closure. Despite that, the Bank of England was trying to prevent the BCCI’s collapse. The bank that took money from more than a million depositors around the world and became a personal piggy bank for its Arab and Pakistani owners and its favoured customers. For its best customers, millions of dollars were advanced, often without documentation and sometimes in violation of the bank's own lending limits. The depositors, virtually all of whom are outside the United States, now stand to lose heavily. The Federal Reserve Board believes that the use of front men ultimately enabled B.C.C.I. to buy control of First American Bankshares Inc., Washington's leading banking institution, run by Clark M. Clifford, the prominent lobbyist and lawyer who represented B.C.C.I. when it first began buying banks in the United States. As losses mounted, the bank apparently hatched a scheme to cover them up by making interest payments on loans with deposits from other customers. The idea was to deceive auditors from detecting the red ink in its loan portfolio. The scheme also involved offshore funds parked in lightly regulated countries that could be drawn down to patch up losses elsewhere.

And when capital was needed to absorb further losses, the bank artificially pumped up its share price by lending money to existing shareholders to buy more stock. The proceeds from the stock would help balance the bank's books, but the bank was merely taking depositor money and investing it in the bank.

After federal investigation, a state grand jury in Manhattan indicted B.C.C.I. in 1991 for money laundering, bribery and fraud, and the Federal Reserve Board proposed a record $200 million fine on B.C.C.I. for secretly controlling three American banks - First American, the Centrust Savings Bank of Miami and Independence Bank of Encino, California. The problem is that the Bank of England has already had this information. BCCI’s auditor, Price Waterhouse, has already notified it about the international scope of its financial criminal behaviour:

“Using codenames like "Sandstorm" for B.C.C.I. and "Fork" for its Cayman Islands affiliate, called the International Credit and Investment Company, Price Waterhouse sketched out in 45 pages what it termed "one of the most complex deceptions in banking history." It included phony loans, unrecorded deposits, secret files and illicit share-buying schemes - all funnelled through a global network of shell companies, friendly banks and wealthy Arab front men to cover up the scam.

The most visible B.C.C.I. front man in the United States, according to the Federal Reserve Board, was Ghaith R. Pharaon, a Harvard-trained Saudi businessman who has owned banks, hotels and manufacturing businesses around the world, including extensive projects in Argentina. From his estate in Richmond Hill, Ga., near Savannah, Mr. Pharaon befriended wealthy American politicians and business leaders, including former Atlanta Mayor Andrew Young and Bert Lance, the Georgia banker who served as budget director in the Carter Administration.

Mr. Pharaon bought Mr. Lance's National Bank of Georgia and later sold it to First American Bank. Mr. Young later had a contract with B.C.C.I. with a $50,000-a-year retainer to introduce B.C.C.I. around the world.

The bank curried favour with other prominent people through charitable donations or consulting fees, including former President Jimmy Carter and former Prime Minster James Callaghan of Britain, to lend B.C.C.I. an aura of influence and respectability. Simultaneously, it maintained secret accounts for a collection of people and institutions that reads like a list of characters and organizations for a spy novel: Saddam Hussein, Abu Nidal, Manuel Noriega, the Central Intelligence Agency and an assortment of drug runners and arms merchants. The biggest victims, however, were ordinary Pakistani people depositing their life savings, and small companies locating their pension funds in BCCI.

Its founder, a Pakistani banker Aga Hassan Abedi never had big money but an ambition to create a huge, globe-spanning bank able to compete with Western financial mammoths. Therefore, he aspired to suck capital from bank's small and big customers, the biggest being the Gulf Group, a shipping and trading conglomerate owned by the Gokal family of Karachi. However, in 1972 the Gulf Group began borrowing heavily from B.C.C.I. for trade financing and shipping loans. The following year, the loans had grown to the point that B.C.C.I. transferred the Gulf Group accounts from the London office to its Cayman Islands subsidiary, B.C.C.I. Overseas, to sidestep Bank of England restrictions on lending limits. But by 1978, the Gulf Group was in financial trouble and so were B.C.C.I.'s loans. To hide its losses, B.C.C.I. funneled money -- often unrecorded deposits -- from elsewhere in the bank into the Gulf Group accounts to make it appear that loan repayments were up to date when they were not. The elaborate deception involved some 750 accounts over a 15-year period, and loans to the Gulf Group from B.C.C.I. and through its many shell companies totaled more than $700 million (Lohr, 1991). BCCI collapsed; its files were seized but no banker went to jail.

It is only in 2020 that he has been accused of "profligacy" by his London property empire managers (Sampson 2020). British High Court battle is set to involve Sheikh Khalifa bin Zayed al-Nahyan, the Emir of Abu Dhabi and his half-brother of Sheikh Mansour who owns Manchester City football club, accused of 'profligacy' by the former managers of his £5.5 billion London property empire of 140 properties. Accussations include filling pools with mineral water and leaving £5 million property with extensive gardens in Southwest London never occupied since ”it was deemed too small to house all his staff and security personnel.” (Sampson, 2020)

5.2 HOW DOES THE ISLAND TAX HAVENS FUNCTION

Currently, about 70 countries and territories offer their offshore services for foreign capital, banking arrangements, profitability from transactions in financial markets.

The UK allows its Crown Dependencies to cultivate tax evasion and money laundering activities, despite that it is simultaneously responsible for ensuring the good governance of those islands. That is due to quasi independence these islands have and the ability of Britain to claim that it is not within its powers to influence island’s own financial law. However, when the domestic laws enacted by the governments of the Bailiwicks of Guernsey and Jersey they need prior approval from the Privy Council from London is necessary. That means UK will resist or disagree with any laws that would harm the British Isles (UK Department for Constitutional Affairs is responsible for government relations with the Crown Dependencies and can influence them).

The mechanism of functioning of offshore jurisdictions provides for the management of non-resident’s assets. That includes, but is not limited to, traditional banking services (fundraising and lending), fund management, insurance, trust business, tax planning and international business corporations. The increasing globalization of financial markets has always had a positive effect on offshore jurisdictions, leading to the transformation of financial markets into offshore. Therefore, offshore jurisdictions also include such world financial centers, as: Jersey, London, Switzerland and New York (Shynkar et al. 2020). As Thomas Piketty have shown, wealth that individuals hide away through tax havens is concentrated disproportionately in the hands of the upper 10% rich people. The ability to use tax havens thus contributes to the perpetuation of structural inequality. According to the most widely cited estimate available, $7.6 trillion is currently hidden away in tax havens, which amounts to 8% of total global financial wealth – more than what the poorer half of the world’s population owns in total (Zucman 2015).

Tax havens as individual jurisdictions or entire zones gravitate towards each other and form one complex global financial network. The Offshore Financial Centres and tax havens are used to achieve many goals, the most popular is to reduce the tax burden on businesses and individuals. The other include:

- "stepping stone" – dividing assets between different jurisdictions;
- "thin capitalisation" – credit scheme when somebody is given a loan with overstated interest rate and this money is then withdrawn offshore;
- "transfer pricing" – selling product to resident of the tax haven at a reduced price. Then, resseling it for profit but declating it in the tax haven (aslo known as "trading scheme");
- registering copyrights on the company or its branch registered in tax haven, or on the resident of tax haven;
- "tax hybrids" – companies from countries with high taxes register themselves as tax residents in tax havens.

Other famous, but more complicated, mechanisms include aggressive tax planning, "double Irish" and "double Irish with a Dutch sandwich".

Aggressive tax planning, which is impossible without consultants, audit companies and tax divisions of investment banks, consists in the deliberate use of a double interpretation of laws (which is completely legal) and, in some cases, may violate legislation.

"Double Irish": Dublin taxes companies if they are controlled and managed in Ireland, while the US' definition of tax residency is based on where a corporation is registered. Companies exploiting the double Irish put their intellectual property into an Irish-registered company that is controlled from a tax haven such as Bermuda. Ireland considers the company to be tax-resident in Bermuda, while the US considers it to be tax-resident in Ireland. The result is that when royalty payments are sent to the company, they go untaxed (Houlder, 2014).

"Double Irish with a Dutch sandwich": sending profits first through one Irish company, then to a Dutch company and finally to a second Irish company headquartered in a tax haven. Possible until 2020.

For legalization of proceeds of crime, the cycle of capital in tax havens is called "Base erosion and profit shifting" and looks as follows:

- at the first stage, it is necessary to use the available opportunities for money laundering to the OFC. For this, trading transactions at inflated prices, fictitious transactions, making investments abroad, etc. may be applied;
- at the second stage (optional), funds are sent from OFCs to prestigious jurisdictions, where they are used in a number of agreements, concealing their origin;
- at the third stage, the beneficiary of the capital can make a choice about further use of funds: whether leave them in tax haven jurisdiction for heirs or comfortable declining years or return capital to the country of origin in the form of investments, direct loans and fiduciary deposits, in conjunction with observance by the OFC of confidentiality standards, or conceal the origin of capital;
- at the fourth stage, another round of capital laundering takes place - residents of the country of capital origin pay dividends on direct investments and interest on debt obligations. Usually, countries provide government guarantees on the return of foreign investment and repayment of international debts; it makes it possible to "close their positions" for many businessmen and corrupt politicians if the political or financial situation in the country worsens (Lucyshyn and Mechtiev, 2017).

The international anti-money laundering policymaking agency, the Paris-based Financial Action Task Force anti-money laundering standards, de facto, dictate policies, laws and regulatory practices in 205 countries and jurisdictions. In practical terms, laws based on FATF standards require financial institutions, banks, financial providers, lombards and even betting offices to meet intricate compliance obligations, verify their customers' identities, source of funds, monitor financial transactions, and report specified types of transactions and "suspicious" activities to authorities (Pol, 2020).

International pressure from Finanacial Action Task Force and EOCD made many offshore jurisdictions adopt in 2013-14 the Convention on Mutual Administrative Responsibility in Tax Matters (1988). They amended corporate laws and took other measures to increase transparency. Currently, the organisations responsible for deoffshorization are: Interpol - an international organization that investigates international economic crimes and combats money laundering; Commonwealth Commercial Crime Unit (CCCU); Offshore Group of Banking Supervisor; International Organization of Securities Commissions; Berne club and EUROPOL.

In addition to that, in July 2021 European Comission presented package of new legislative proposals for the 2020-25 plan, called Security Union Strategy. Their implementation will be taken care of by a new body called EU-level Anti-Money Laundering Authority (AMLA). This new central authority will coordinate national authorities to ensure the private sector correctly and consistently applies EU rules (European Comission, Jul, 20, 2021).

6. MONEY LAUNDERING IN TAX HAVENS

Money laundering refers to a process through which criminals attempt to conceal the true origin and ownership of the proceeds of crime. Such behaviors involving illegal activity are not limited by the laws of the place of origin nor are they limited across borders Successful money laundering implies that the ill-gotten money loses its criminal identity and appears legitimate – a drug trafficker might buy real estate.

Money laundering activities are typically associated with organized crime and tackled through anti-money laundering legislation. Masciandaro (1999) proposed two ways of classification of money laundering: illegality: money laundering implies the use of any revenue originated by a criminal or illegal activity; and concealment: the primary goal of money launderingis to hide the illegal source of such revenues. Money laundering schemes are more effective when monies flow through many jurisdictions: multiplying the number of transactions and of regions involved highers the chances of getting away with it. It takes longer time and more investigation power to trace money flow. Also it becomes more difficult to authorities when they have to cooperate with other nation-state's authorities involved in the process (Masciandaro and Portolar 2003).

Cross-border financial flows were multiplied by market capitalisation, which have increased since 1990 to $8.2 trillion in 2006 (OFAC estimates). Illicit financial flows constitute around 20% of this amount, but by and large governments and multilateral agencies have downplayed concerns about dirty money except when drugs and terrorism are concerned.

Despite global efforts to combat money laundering in offshore financial centers, both OFC and Western countries have little interest in applying anti-money laundering rules and regulations effectively – they have too much too lose. This is due to the fact that competition in the field of taxation is beneficial, and governments of offshore jurisdictions ensure the realization of their own interests by creating a favorable tax environment for business (Shynkar et al., 2020). In the American case, it is estimated that 55 % of U.S. foreign corporate profits are “earned” in tax havens with the help of accounting manipulations, thus the U.S. loses approximately $130 bn in corporate income tax revenue annually (Zucman 2015).

6.1 BRITISH ANTI-MONEY LAUNDERING LEGISLATION

The UK has some of the toughest money laundering legislation in the world. Concerns about drugs and Irish terrorism dominated in the 1980s. Influenced by the U.S. focus on coopting the financial services sector, drug trafficking suspicions were required to be reported from 1987, even though comprehensive all-crimes money-laundering regulations did not go into effect until 1994 (Levi and Reuter, 2006).

Money laundering became a criminal offence in the UK in 1993 through the Criminal Justice Act (CJA). Since then, successive legislation has progressively tightened the AML/CTF regime. Banks and other firms must comply, or risk ruinous reputational damage and financial penalties. The recent laws in this regard may be titled 'Regulations', but these are in fact secondary legislation that prescribe additional obligations. The UK AML/CTF laws cover the proceeds of any criminal activity committed anywhere in the world as long as they are passed to or through the UK. The key pieces of AML/CTF legislation are shown here with the latest first.

Serious Organized Crime and Police Act 2005: This law clarified certain provisions of the POCA and enabled the setting up of the National Crime Agency (NCA) to tackle serious and organised crime, including money laundering. The NCA is responsible for collecting and investigating Suspicious Activity Reports (SARs) sent by MLROs in all firms in all sectors.

The Sanctions and Anti-Money Laundering Act 2018 serves to place the UK in an independent position, with its own law on sanctions and anti-money laundering - thus ending the UK's reliance on EU Directives post-Brexit. The UK's Money Laundering Regulations were updated in January 2020 by the MLR 2019 to incorporate the EU's Fifth Directive on Money Laundering (5MLD).

MLR 2017 as amended by the MLR 2019 widens the coverage of the AML/CTF regulations to more sectors, including letting agents, online gaming firms, and high-value dealers (such as art dealers and freeports dealing in the sale or purchase of works of art where the value of the transaction or series of linked transactions amounts to €10,000 or more) and providers of exchange of or storage services for cryptos-assets such as virtual currencies and the necessary due diligence required for each.

MLR 2019 also extended the definition of "tax adviser" to include those who provide material aid or assistance on tax. The Money Laundering and Terrorist Financing Regulations 2019 (MLR 2019) transposed the EU's Fifth Directive on Money Laundering (5MLD) in the UK. They extended the scope of AML regulations to crypto-asset exchanges and custodian wallet providers (who were required to register with the FCA for AML/CTF supervision), art dealers (transaction value above €10,000), letting agents (monthly rent above €10,000) and tax advisers (who were required to register with HMRC). They also extended the application of EDD to:

- Transactions involving parties in any country on the European Commission's high-risk third countries list
- Transactions related to oil, arms, precious metals, cultural artefacts, ivory or items related to protected species, and articles of archaeological, historical, cultural and religious significance, or rare scientific value
- Transactions involving third-country nationals seeking residence or citizenship rights in exchange for investment in the local economy
- Transactions involving beneficiaries of life insurance policies

5MLD also required EU member states (and the UK) to allow anyone with a legitimate interest (e.g., for conducting CDD) to access registers of beneficial ownership and create lists of activities that qualify as a prominent public function to enable the European Commission to build a list of PEPs in the EU.

The EU's Sixth Directive on Money Laundering (6MLD) has not been adopted into UK Law but does apply to regulated United Kingdom businesses in the financial sector that operate within the jurisdiction of the European Union, who will need to comply with the changes and additions set out in the directive. The sixth Money Laundering Directive includes the following:

Harmonisation of the definition of money laundering on the introduction of a standard list of 22 predicate offences (most of these were already present in UK law). Expansion of the money laundering offences to include aiding and abetting, inciting or attempting money laundering. Extension of criminal liability to legal persons - i.e., companies and partnerships - that fail to prevent money laundering offences by employees, with penalties including temporary or permanent closure. Introduction of a minimum four-year prison sentence for all money laundering offences (the penalties in the UK were already more than this minimum) (FCA materials).

Implementation of these laws results in blocking accounts of the suspected individuals and writing SARs – Suspicious Activity Reports sent to FCA – Financial Conduct Authority, the highest financial supervisory body in the United Kingdom. That causes considerable inconvenience to the actors involved and denies or restricts banking services to many sections of the society.

However, the most recent research on the effectiveness of anti-money laundering legislation made by Ronald Pol (2020) found that authorities recover 0.05 % of illicit funds. According to his analysis anti-money laundering policy intervention has less than 0.1% impact on criminal finances, compliance costs exceed recovered criminal funds more than a hundred times over, and banks, taxpayers and ordinary citizens are penalized more than criminal enterprises, the reason being design features of financial institutions' compliance. In terms of the impact on profit-motivated crime revealed by such studies, Europol says that authorities only confiscate about €1.2 billion of illicit funds annually (2016).

Burns (2020) and Pol (2020) argues that despite highering penalties put onto banks, it is ordinary citizens that are harmed more than banks and criminals by laws ostensibly aimed at financial crime. Banks typically pass their costs on to shareholders and customers - in lower dividends, higher fees, lower interest rates for savers, and higher rates for borrowers. Moreover, taxpayers pay the costs of government, including scores of international agencies involved in the anti-money laundering. What Pol argues is that current anti-financial crime policy is more technically focused than strategic, that is why it is unssuccessful in combating this crime.

"Anti-mafia police arrested 68 members of Cosa Nostra, 'Ndrangheta, and Apulia's Sacra Corona Unit a working together in a $5 billion online gambling operation with operations in Albania, Austria, Britain, Germany, the Isle of Man, Italy, Luxembourg, Malta, Romania, Serbia, the Seychelles and Switzerland."

Deutsch Welle, 2018

6.2 EXCHANGE BETWEEN OFF-SHORE CENTERS AND CRIMINAL ORGANIZATIONS

Following the end of the Cold War, a rise in international trade, mobile communication and relaxed geographic boundaries brought an era of globalization to organized crime. Organized crime core groups are connected through kinship, ethnicity, and culture but strictly adhering to a territorial power limits the opportunities that these capitalist enterprises can exploit. Tax avoidance and hiding proceeds of crime were not large before 1970 compared to recent times. It is 1960s and 1970s when lawyers, accountants, and a cohort of former politicians, diplomats, and spies managed to convince governments to put in place the legal architecture for a wide range of avoidance (Ogle, 2017). Between World War II and the 1970s, the avoidance industry developed into a veritable profession, with different branches and sub-specializations, including advertising, specialist publications, and even seminars to teach investors how to maximise taxes of hide their wealth. It was soon copied by crime gorpus.

First British offshore financial centers such as Kayman Islands and Bermuda were developed partially to accommodate South American drug cartles and provide the safe heaven for their ill-gain. The other group, as already mentioned, were former African settlers of British origin. Kaymans and Bermuda were far enough from British territory and insignificant enough to evade the attention of global public. After all, it has been only in 1987 when United States pass a law forbidding money laundering, followed by UN, passing UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in 1988. Up until then British Antlantic tax havens were specialising in drug cartels as their target customer group.

In the 1980s, Gilberto Rodriguez Orejuela, the leader of the Colombian Cali cartel, became the largest shareholder of the First Interamericas Bank of Panama. The cartel did this in order to facilitate the laundering of drug money and its reinsertion it into circulation.

Also in the 1980s, Cosa Nostra was a key player in the transcontinental heroin trade but lost their control to Mexican, Chinese and Columbian groups. Therefore, to avoid arrests, a new mafia's financial model emerged where the ”legal” business owner was not simply a front man, but a formal holder who provides managerial direction. In an answer to that, Italy passed The Rognoni-La Torre Act in 1982, enhancing the ability of law enforcement to identify the trail of drug trafficking money being reinvested in legal businesses (Balsamo, 2006). Later on, success of law enforcement anti-mafia campaigns of the 1990s, Cosa Nostra lost significant political power and has modified its organization towards more democratic one. Since 2000s there is a visible trend in established European criminal groups of laundering money in other legal businesses, especially restaurants, gambling, banking and pension funds (Ross, 2020). As Antonio Balsamo (2006) writes:

> ”In this way, criminal groups are able not only to launder money successfully, but also to "launder" their people introducing them into the high finance world, to regulate the local market, as well as to plan access to public work contracts, and consequently to influence the development of the entire society."

In the meantime the Soviet Union collapsed. Over time British Virgin Islands started to cater a new group of criminals – Central and Eastrn European politicians fleeing with public funds stolen from the dismantled public companies. Currently BVI is the second most popular destination for the illicit money leaving Russia (Lee, 2018).

In 2000, the growth of the transnational drug trade caused the passage of the United Nations Convention against Transnational Organized Crime which recognized the global threat of organized crime. (United Nations Office on Drugs and Crime, 2010). However, global economy makes it more difficult to retain power for mafias whose leadership resides in the country of origin.

Allum (2014), while analysing styles of organisation of two dominant Italian mafias, Cosa Nostra and Comorra, came to the conclusion that the more hierarchical the mafia is, the least effective it is to evade attention from law enforcement in a globalized world. That is because a defining characteristic of mafia is a quasi-governmental style mixed with powerful political influence in a defined territory, which loses its potency in a globalised market. As a response, mafia clans started opening overseas branches specialising in specific activities to reduce the dependency on a single market. For example, the Secondigliano Alliance uses a segmented, polycentric structure to establish dominance and increase capacity in the international drug trade. Others forms of illegitimate business include deals with Chinese mafia in distributing counterfeit goods using old cigarette smuggling routes (Scaglione, 2016). Examples of the legal realm controlled by Camorra clans range from tourism investments such as owning hotel properties in Costa Del Sol, Spain by the Amato-Pagano clan (Allum, 2014) to the legal food and catering businesses owned by the La Torre group in Aberdeen, Scotland. On top of that, two new trends amongst Italian organised criminals crystalised: stricter members recruitment and the rise of women's position within mafia's financial centers (Scaglione, 2016).

Other strong mafias, laundering their money nowadays are Turkish, Libyan and Lebanese groups engaged in people smuggling. The cartels that managed the arrivals of the Syrians in Europe are all Turkish mafias. Apparently, Turkish mafia also manages heroin trade arriving to Europe from Afghanistan. ISIS has three primary sources of profit, all from criminal activity: racketeering, petrol smuggling and art smuggling. The fourth is drugs – Captagon which is a meta-amphetamine or marijuana that ISIS cultivates in Albania. Islamic State's money is hidden predominantly in Luxembourg, Malta, Guernsey and Jersey (Saviano, 2017).

Masciandaro and Portolar (2003) proved that countries where organized crime is pervasive appear to play a minor role in the offer of financial services at the international level. It is actually stable and relatively organized crime-free countries that can afford to maintan secret and secure financial services, making it attractive for money launderers. Such countries will almost always be able to externalize the costs associated with the increase of predicate crimes. Also, as tax havens tend to be small islands with few natural resources, they are less vulnerable to threats posed criminal groups. Therefore, some countries which do not bear the costs associated with money laundering become predisposed to adopt laws that facilitate money laundering. The other side of the coin is that both criminal organizations and those who bear the costs stemming from money laundering will "naturally" tend to be situated in countries other than the ones with strong regulations.

What are the costs of money laundering to the criminal organizations' host countries? From the very beginning, the confrontation between those who benefit from money laundering and those who suffer from money laundering has only one possible result - it is a "win win" game for criminal organizations. Organized crime experiences huge asymmetrical organizational advantages over those who bear the costs of money laundering. Even assuming that organized crime: commits the predicate offences in a given country, launders the proceeds abroad, and then lets the capital flow back into the first country, the costs are spread throughout the society. Predicate offences can thus be committed in the country where organized crime is based, while the capitals can be introduced, once laundered, into a different country.

The overall costs of money laundering will therefore spread over (at least) two countries, thus exacerbating the collective action problem faced by those who bear the costs of money laundering.

The UN estimated that authorities intercepted \$3.1 billion of illicit funds in 2009, with more than 80% seized in North America, meaning United states (UNODC 2011, 119 and 113). In 2009/2010, Canadian authorities successfully confiscated just C\$59 million (FATF & APG 2016), less than 2% of the total. Unfortunately, most estimates lack methodological clarity, few are validated, and there are gaps, as the calculation excludes allocations and administrative costs (Pol, 2020).

More recently, in 2017, total net deposits of $2.15 billion were paid into the US Treasury and Justice Department asset forfeiture funds (Department of Justice 2017; US Treasury 2017). If US asset forfeitures (sometimes called confiscations) represent 80 percent of the total, this suggests global forfeitures of $2.7 billion in 2017.

In Europe, the anti-money laundering movement apparently makes private businesses spend as much as €144 billion in compliance costs to help authorities confiscate up to €1.2 billion of more than €110 billion generated by criminals each year. This suggests a higher recovery rate, at 1.1%, but for reasons outlined above may be overstated, and offset by compliance costs 120 times the amount successfully recovered from criminals. Bizarrely, by these estimates, compliance costs exceed total criminal funds! As stated by Europol, the biggest problem is the "huge gap between the profit's criminals [generate] and the amounts eventually seized and confiscated" (Europol, 2016).

For supervisory authorities, money laundering represents a strategic problem, capable of undermining the stability and competitiveness of the financial system. This observation helps to explain why supervisory authorities, rather than political actors, take the lead of initiatives aimed at combating money laundering. Territorial entities also have an incentive to let somebody else bear the costs of the policy they implement. The easiest mean to externalize the cost of something is to impose taxes on chosen organization. With this mind, off-shore centers face a simple scenario. The lack of a superior authority frees the hands of off-shore countries, facilitating the task of keeping the costs of money laundering outside the center while retaining the benefits.

Tax havens, therefore, bear two types of costs: costs of predicate offences stemming from money laundering, and costs resulting from money laundering on the functionality of the financial system. In other words, having decided to strike a bargain with organized crime, the off-shore center faces the problem of avoiding the full burden of the costs associated with this activity.

How does Bermuda, Gibraltar, Jersey, Kayman Islands or The Isle of Man cope with it?

Island tax havens, as many other small islands, have low crime rate. They have one simple rule: all the advantages of a given tax regime are lost if the "firm" that benefits from the regime or its representatives commit a crime inside the off-shore center. Criminal organizations are therefore obstaianing from commiting crimes on island's territories. Some might not win the chase, as visible in relatively high criminal rate of Gibraltar peninsula comparing to Antaltic islands. Success in the competition with other off-shore will entail the growth of a rich financial sector.

Paradoxically, success may be counterproductive, in that it may result in increased pressure from organized crime to take control of the off-shore's financial sector. Aware of this threat, off-shores are expected to put in place defenses aimed at protecting their financial sector. Off-shore centers will try to minimize the effects of money laundering on their financial system. This result may be achieved through instruments which can be grouped under the label of "ring fencing practices." Often, "firms" which benefit from a given regime may be explicitly or implicitly prohibited from operating in the domestic market. Both of these provisions would ensure the off-shore center that criminal organizations that aim at benefiting from the regime do not "reside" in the off-shore center (Masciandaro and Portolar 2003).

6.3 OFFSHORE TAX HAVENS AND CORRUPTED PUBLIC FIGURES

The most significant group of people bringing illicit money to British tax havens is, as already mentioned, Russian politicians and other former USSR mafia people. The source of the illicit assets is predominantly Russia or another country in the former Soviet Union. According to Russia's own national risk assessment, published last year, the criminal activity most often seen to be generating illicit proceeds includes embezzlement of public funds, crimes related to corruption and abuse of power, fraud in the financial sector, and drug trafficking (Shaffer and Cassella, 2020). If we assume that their corrupted political systems constitute a type of organized crime, then this money flow made by authoritarian politicians and their family members from party-owned ”nationalised” companies to their private accounts can be called an illicit money flow. And those, who expose it, usually end up killed by Russian mafia regardless of the territory they have escaped to.

The National Crime Agency estimates that over £90bn of illicit money is flowing through the UK every single year. After poisoning of Sergiei Skripal in 2018, government of former Prime Minister requested a report on what amount of Russian money is actually flowiing through United Kingdom. The report called ”Missing the Bigger picture” made by Global Witness confirmed that billions of Russian cash flowing into and through the OTs include the proceeds of crime and suspected corruption. The methods most commonly used to launder these proceeds include using front or shell companies or other non-resident legal persons and arrangements; trade-based money laundering through fictitious economic activity abroad, assisted by people affiliated with public officials; the misuse of electronic payments and virtual currencies; and cash operations. The report contributed to passing the amendment to the Sanctions and Anti-Money Laundering Bill that would require the OTs to introduce public registers of the real owners of companies registered there (Lee, 2018).

One of the most well-described financial crime cases is called “Russian Laundromat”, laundered some $20.8 billion and was exposed in 2014. A core of 21 companies based in the United Kingdom, Cyprus and New Zealand and run by hidden owners. Funds were sent to them by Russian businessmen owning groups of companies involved in construction, engineering, information technology, and banking. To get the money out, the scheme’s organizers devised a clever misdirection. They created a fake debt among some of these core shell companies and then got a Moldovan judge to order the Russian company seeking to launder funds to pay that debt to a court-controlled account. Moldindconbank in Moldova held those accounts. The companies involved in the fake debt also had accounts at the same bank. Soon, Moldindconbank was deluged with cash sent in from the Russian companies. About $8 billion was then withdrawn directly from these accounts in Moldova and spent around the world. Spending sprees and rapid movement of funds were entitled: fancy autos, prep school fees, furs, and electronics.

Meanwhile, nearly $13 billion more was transferred to Trasta Komercbanka in Latvia. Some of the money disappeared into the maze of these same shell company accounts. Trasta Komercbanka’s location in the European Union made the transactions less likely to be questioned by other banks. The money was now considered “clean”.

At the other end of the Laundromat, money flowed out for luxuries, for rock bands touring Russia, and on a small Polish non-governmental organization that pushed Russia’s agenda in the European Union. It is run by Mateusz Piskorski, a Polish pro-Kremlin party leader arrested for spying for Russia. However, the whole concept was apparently invented by a The Hungarian-born, California-based psychology professor Mihaly Csikszentmihalyi, who got paid for his services through the scheme. Moldovan authorities tried to investigate the case. However, ” the farther along Moldovan investigators got in figuring out the Laundromat, the more the Russian government “harassed” and “abused” Moldovan officials trying to enter Russia.” (OCCRP, 2017).

Sme of the PEPs, who were chnnelling Russian public money like these were Alexey Krapivin, a businessman in the trusted inner circle of Vladimir Putin; Georgy Gens, a Moscow businessman who owns the Lanit group, one of the major information technology (IT) distributors in Russia, for Apple, Samsung, ASUS and other computer giants; or Sergey Girdin, who is involved in Russian IT business and who is an important client of the biggest Russian-owned bank. Some Laundromat money was funneled to companies owned by Russian citizens abroad, such as Trident International Corp., owned by Pavel Semenovich Flider, naturalised US citizen, accused by FBI of spying and smuggling electronics components to Russian defense technology firms on the US sanctions lict (U.S. DOJ, 2015).

Well-known companies unwittingly took part when beneficiaries used their Laundromat money to buy goods and services. Scheme was exposed by the Organised Crime and Corruption Reporting Project. That included South Korea’s Samsung, Swedish telecom company Ericsson, and the toolmaker Black & Decker. United States transferred $500,000 to Total Golf Construction Inc., the company that boasts of renovating a Donald Trump golf course on Canouan Island in the Grenadines. A big Japanese electronics manufacturer got €576,000 from the Laundromat in its Austrian branch on behalf of a British company run by a Russian criminal, Sergey Magin. By this, criminals laundered at least $20.8 billion out of Russia. Two of the three Russian businessmen referred to as ‘super-users’ of the scam used BVI companies to receive over $100 million of laundered money (OCCRP, 2017).

Another money laundering scheme Russians used is called ‘mirror trades’ – made up loan deals are in facts transfers of illicit money from friends to friends to conceal the source of funds, usually using ad hoc, hand-written or made-up invoices (Lee, 2018).

In many cases, the initial steps in the laundering process occur within the banking sector itself. Other reason is related to the significant size of the “gray” economy in former USSR republics. Indeed, in Russia, it is estimated that in 2016, up to 21% of participants in the labor force did not have a contract for their main job (Shaffer and Castella, 2020).

The analysis made by the IMF and Russian Central Banks shows that the billions of Russian cash flowing into and through the BOTs include the proceeds of crime and suspected corruption. The presence of such a significant informal economy may make it easier for criminals to conceal serious criminal activity.

- British Overseas Territories have almost five times more Russian capital than the UK.
- Cyprus, the Netherlands and BOTs are the most popular hiding places for Russian money.
- Over the past 10 years, more than 7 times more money has flowed from Russia to the BOT than has gone to the UK.
- Over the past 10 years, £68 billion from Russia has been invested in the BOTs.
- Money invested in the BOTs accounts for 12% of all Russian money invested outside Russia.

Another significant group of high net worth and politically exposed persons (PEPs) is constituted from the Central and South American politicians and gang leaders.

"Only the little people pay taxes"

6.4 FINANCIAL CRIME IN BRITAIN

The United Kingdom, deals with 41% of global foreign exchange trading and 17% of the total global value of international bank lending, has thus become attractive to money launderers. Other things that also attracts are, the size of the UK's financial and professional services sector, attractiveness of the London property market to overseas investors and open economy (NCA, 2015).

"If an accountant or lawyer creates a company, she will be regulated by one of 22 different bodies, which are in turn overseen by the newly created Office for Professional Body Anti-Money Laundering Supervision (OPBAS), which is part of the Financial Conduct Authority (FCA). Company formation agents such as Brewer, however, are regulated separately, although they are doing the same job. They report to HMRC, which is a non-ministerial department. When Companies House creates corporate vehicles, meanwhile, it isn't regulated for anti-money-laundering purposes at all and is an executive agency working with BEIS." (Bullough, 2018).

A new and terrifying book by the Financial Times journalist Tom Burgis, Kleptopia, follows a global current of dirty money, and the murders and kidnappings required to sustain it. Again and again, he found, this money, though it might originate in Russia, Africa or the Middle East, travels through London. The murders and kidnappings does not happen in Britain. British multimillionaires, though, are killed by Russian mafia elsewhere. Last decade examples include India and Gibraltar, usually by defenestration – from Modern Latin "fenestra" – millionaires have been killed by being thrown through the window in their luxury apartments with no trace of burglary (Burgis, 2020). The National Crime Agency estimates that money laundering costs the UK £100bn a year, although its earning are much higher. With the money come people fleeing the consequences of their crimes, welcomed into this country through the government's "golden visa" scheme: a red carpet laid out for the very rich.

By giving false identities, company owners in the UK can engage in the industrial processing of dirty money with no fear of getting caught. Even when the UK's company registration system was revealed as instrumental to the world's biggest known money-laundering scheme, the Danske Bank scandal, the government turned a blind eye. The fact that ultimate ownership of the capital is disguised through offshore secrecy arrangements provides a very high level of immunity from investigation. In most cases even the major international commercial investigation agencies find it difficult to discover the multi-jurisdictional structures created to conceal the money flow (Monbiot, 2020).

The British government is supposedly committed to tackling corruption and financial but Britain's involvement in this mega-scandals has never been mentioned in parliament or been addressed by ministers. If you want to create an impenetrable weapon for committing fraud: first, forget about the supposed offshore centres and come to the UK; then take advantage of the super-easy Companies House web portal; then enter false information; and finally make sure that information is plausible enough to deceive a casual observer.

Companies House maintains the UK's registry of corporate structures and publishes information on shareholders, directors, accounts, partners and so on. As part of a drive to make the country more entrepreneurial, anyone can now register a company via the registry's web portal, rather than doing it on paper or going via an intermediary Setting up a company costs £12 and takes less than 24 hours. However, the proportion of companies created directly with Companies House, rather than via regulated intermediaries, is increasing every year and is approaching 50%. If the ownership information for half of all new companies is non-verified, that brings the integrity of the entire registry into question.

According to Jon Benton, retired corruption and financial crime investigator in the Met, the NCA and the Cabinet Office, most of these agencies do not even have software that can communicate with the others, let alone share intelligence with them. "I'm in the private sector now and I see the power of the analytical software used by financial institutions. It's decades ahead of law enforcement," he told me. "We criticise things in places like the British Virgin Islands, but it's happening on our doorstep." (Bullough, 2018).

What is the most eye-opening, is that the British company registration system contains a giant loophole. The mechanism is based on the rule that since 2016, the UK government has made it compulsory for anyone setting up a company to name the individual who owns it: "the person with significant control", or PSC. Before this reform it was possible to own a company with another company and, if that company were not British, the actual owner could hide their ultimate beneficiary. The reason behind of the PSC registry was to stop fraudsters obscuring their identities behind shell companies. However, there is nobody in Companies House who checks the validity of information and enforces the rules (Bullough, 2019). That means, the system can be easily bypassed by making typos in the beneficiaries' identities. As found by the anti-corruption campaign group Global Witness investigated PSCs: 4,000 of the directors were under the age of two. One had not even been born yet. Researchers also found five individuals who each controlled more than 6,000 companies. Companies House register is therefore very prone to exploitation and fraud and should not be taken as a sole source of the information on the company.

Such eye-watering sums only serve to feed voters' growing mistrust of politics.

7. TAX HAVENS ENLARGING FINANCIALIZATION OF THE GLOBAL ECONOMY

The globalization of economic activities and financial markets has had a very positive impact on the world economy. It can facilitate the ways by which money can be laundered internationally which is one of the biggest costs that this phenomenon creates. Money laundering threatens the economic and financial systems in many countries, and has important effects on income distribution and macroeconomic variables. The country, from which financial crime originates usually experiences major macroeconomic effects. They include deformation of consumption with the prelevance of luxury goods, artificial price growth, illegal businesses destroying legitimate ones, corruption and bribery, increased crime, destabilized political institutions. However, the country hosting laundered money, such as tax haven, will experience opposite effects: stable prices and ficancial sector, stable inflation and low criminal rates. Tax havens serve as a layering and enabling place, where proceeds of crime are turned into legalized assets by sophisticated transfers between limited liability companies and trusts, authorized by an army of accountants, while politically stable developed countries usually serve as final destication of these funds, where criminals can purchase such goods as property, education for their children, buy shares (Legucka, Szeligowski, 2019).

Rising financialization because the role of the state is decreasing in securing people's pensions. People live longer, are afraid of their future, use financial instruments to save privately in the gap that used to be occupied by a welfare state. In the last decades of the 20th century, the offshore industry has developed, and it is estimated that the volume of liquid capital flowing through these countries accounts for approximately 70-80 % of private liquid capital worldwide. However, there is an observable phenomenon of "too much finance". Cambridge economist Ha-Joon Chang (2019) argues that financial sector growth is beneficial up to an optimal point, after which it starts to harm economic growth. Most advanced economies, including the United States, the United Kingdom, and other major tax havens, passed that point long ago. For them, shrinking the financial sector to remove harmful financial activities should boost prosperity.

Alongside this research, John Christensen, a former economic advisor to the British tax haven Jersey, and I have developed the concept of a finance curse, which afflicts jurisdictions with an oversize financial sector and is analogous to the resource curse that vexes some countries dependent on commodities such as oil. This “paradox of poverty in the midst of plenty” has multiple causes: a brain drain of skilled people from government, industry, and civil society into the high-paying dominant sector; rising and growth-sapping inequality between the dominant and the other sectors; an increase in local prices that renders other tradable sectors less competitive with imports; recurrent booms and busts in prices of commodities and financial assets; and an increase in rent seeking and loss of entrepreneurship at the expense of productive, wealth-creating activities as easy money flows in. Some scholars also decry “financialization,” or a shift from wealth-creating activities toward more predatory, wealth-extracting activities such as monopolization, too-big-to-fail banking, and the use of tax havens. (Shaxson, 2019).

8. TAX HAVENS NOWADAYS

Until a decade or so ago, there were few political brakes on the expansion of tax havens. After the 2008 crisis, however, governments came under pressure to close large budget deficits and to placate voters furious about taxpayer-funded bank bailouts, widening inequality, and the ability of multinationals and the wealthy to escape tax. The Panama Papers and Luxembourg Leaks revealed the use of tax havens for often nefarious purposes and reinforced the pressure to do something.

According to Zucman (2015), up to $ 7.6 trillion of privately owned world wealth was stored in the tax havens in 2014, which equals to 8% of the world's net financial wealth. The author states that this is an estimate because the difference between financial liabilities and financial assets in banks does not include the value of assets in the form of works of art, jewellery and real estate. Out of $ 7.6 trillion, $ 1.5 trillion was declared, $ 6.1 trillion was undeclared, of which annual tax revenue loss was $ 190 billion. (Approximately $ 125 billion for interest income, dividend and income tax, $ 55 billion for inheritance tax and $ 10 billion for wealth tax).

Andersen et al. (2017) show that 15 per cent of the windfall gains in petroleum-producing countries with autocratic rulers is diverted to accounts in tax havens. A recent World Bank report (Andersen, Johannesen and Rijkers, 2020) shows that aid disbursements to highly aid-dependent countries are strongly associated with an increase in bank deposits to tax havens.

The UK and its corporate tax haven network are by far the world's greatest enabler of corporate tax avoidance. 40% of today's cross-border direct investment reported by the IMF – 18tn USD – are being booked in just 10 countries offering corporate tax relief between 3 per cent to none. They are the most responsible for the breakdown of the global corporate tax system – and estimated 500bn USD is dodged annually by multinational corporations using these network of Britain-controlled satellite jurisdictions. In the Corporate Tax Haven Index, which ranks countries by their contribution to global financial secrecy with a focus on individuals, points out three British Overseas Territories playing a leading role to proliferation of corporate tax avoidance are: British Virgin Islands, Bermuda and Cayman Islands. Next places are occupied by such pearls as Netherlands, Switzerland and Luxembourg. However, there are also other culprits involved when it comes to naming those countries putting an enormous pressure on other countries, not only their dependencies. They are dispossessing low-income countries of their tax rights in order to force them to grant their corporations close to zero tax rate. The list is opened by United Arab Emirates, the UK and France (Mansour, 2019).

British Virgin Islands: setting up a company there will costs £1,000. Procedure is based on going through an agent who will insist on checking identity before doing business, and that will be basically all. Global agreements now require agents to verify their clients' identity, to conduct the same kind of "due diligence" process demanded when opening a bank account. Therefore, making typos helps to avoid being detected. Almost all the traditional tax havens have been forced to comply with the rules, or face being blacklisted by the world's major economies (Bullough, 2019).

One is the Common Reporting Standard (CRS), a regime to exchange financial information automatically across borders so as to help tax authorities track the offshore holdings of their taxpayers. But the CRS contains many loopholes; for example, it allows people with the right passport to claim residence in a tax haven, rather than in the country where they live. The United States constitutes an even bigger, geographic loophole: under the Foreign Account Tax Compliance Act, it collects information from overseas on its own taxpayers, but it shares little information the other way, so non-residents can hold assets in the country in conditions of great secrecy, making the United States a major tax haven (Shaxson, 2019).

Still, the CRS brought some results. The OECD estimated in July 2019 that 90 countries had shared information on 47 million accounts worth €4.9 trillion; that bank deposits in tax havens had been reduced by 20 to 25%. However, the voluntary disclosures ahead of implementation had generated €95 billion in additional tax revenue for members of the OECD and the Group of 20, which includes major emerging market economies.

Secrecy jurisdictions are starving developing nations from their wealth and their tax revenues. As Jason Hickel, an anthropologist from the London School of Economics, who grew up in rural Swaziland, points out in his book The Divide, theft by officials in poorer nations amounts to between $20bn and $40bn a year. It harms wellbeing and democracy in those countries. But this figure is reduced to millimetres by the illicit flows of money from poor and middling nations that are organised by multinational companies and banks. The US research group Global Financial Integrity estimates that $1.1tn a year flows illegally out of poorer nations, stolen from them through tax evasion and the transfer of money within corporations.

The other big initiative was the base erosion and profit shifting (BEPS) project, aimed at multinational corporations. OECD made an effort to “realign taxation with economic substance” without disrupting the long-held international consensus supporting the arm’s length principle, which was bolstered by tax-escaping multinationals and their allies. However, while BEPS did improve transparency for multinationals, it was ultimately seen as something of a failure by the OECD, especially for the digitalized economy (Shaxson, 2019).

As capital moved offshore, African nations borrowed money from international banks at higher interest. It can be said secrecy jurisdictions are starving developing nations from their wealth and their tax revenues. (Shaxson, Sep 2019) Tax havens collectively cost governments between $500 billion and $600 billion a year in lost corporate tax revenue, depending on the estimate, through legal and not-so-legal means. Of that lost revenue, low-income economies account for some $200 billion—a larger hit as a percentage of GDP than advanced economies and more than the $150 billion or so they receive each year in foreign development assistance. In addition, American Fortune 500 companies held an estimated $2.6 trillion offshore in 2017, though a small portion of that has been repatriated following US tax reforms in 2018.

Corporations are not the only beneficiaries. Individuals have stashed $8.7 trillion in tax havens, estimates Gabriel Zucman (2017), student of Piketty and an economist at the University of California at Berkeley. Economist and lawyer James S. Henry's (2016) estimates that the actual yield reaches o total of up to $36 trillion. Both, assuming very different rates of return, put global individual income tax losses at around $200 billion a year, which must be added to the corporate total. When one jurisdiction creates a new tax loophole or secrecy facility that successfully attracts mobile money, others copy it or outdo it in a race to the bottom. That has contributed to a dramatic decline in average corporate tax rates, which have decreased by half, from 49% in 1985 to 24% in 2017 (Cobham and Jansky, 2017).

On top of that multinationals can manipulate the so-called transfer prices of transactions between these affiliates to shift profits from high- to low-tax jurisdictions. For example, a firm's affiliate may hold a patent in a low-tax haven and charge exorbitant brand royalties to affiliates in high-tax countries, thus maximizing profits in the low-tax jurisdiction. The main alternative to "arm's length, separate entity" is something called "unitary tax with formulary apportionment." This system considers a multinational to be a single entity and apportions profits geographically according to a formula reflecting real economic activity, which could be a mix of sales, employment, and tangible assets. These techniques has been partially mentioned in chapter 5.2. In theory, this method cuts out tax havens: if a firm has a one-person office in Bermuda, the formula allocates a portion of its global profits there, so it doe not matter whether Bermuda taxes its portion at a zero rate. In practice, this system also suffers technical difficulties, and the choice of formula is highly political—but it could be simpler, more just and more rational than the current system (Shaxson, 2019).

9. CONSEQUENCES OF TAX HAVENS FOR THE BRITISH POPULATION. POSITION OF LONDON AS THE DESTINATION FOR THE SUPER RICH

London is home to approximately 100 billionaires and 5,000 super-rich individuals (over £20m in non-housing, disposable assets) of various backgrounds and citizenships. Next 350,000 individuals registered in London is classed as middle wealthy – with around £700,000 in assets (Atkinson, 2020).

All these individuals are said to choose London as a living destination due to its international service infrastructure tailored to accommodate needs of this group of consumers. During the Covid-19 pandemic the position of London as a global leading city in terms of wealth has not been diminished

Any tax reform or greater super rich contribution to the tax pot is blocked, referred to by UK politicians as a wealth deterrent or threat that super rich would leave the country.

Thus, governments and international organizations started and are continuously implementing market-regulating laws preventing future abuse of power by bankers and individuals. Laws like Dodd-Frank Wall Street Reform and its section Volcker Rule (US), three new regulatory bodies of European Commission, international organizations such as FinCEN, FATF (Financial Action Task Force), FCA (Financial Conduct Authority), GFI (Global Financial Integrity) to name a few, are there to monitor and bring to justice predatory lenders, excessive borrowers, financial criminals and money launderers.

The city is linked to other golden egg-laying entities – numerous tax havens, flows of international capital and so on. Much of this goes on in a high trust, low regulation environment designed to capture this wealth and maintain a powerful homegrown industry on the back of it.

London's broader "offer", of fine homes, beautiful urban neighbourhoods often attached to parks, luxury services and shops, welcoming plush hotels and a sense of grandeur and place, cement the economic value of the city as a place to actually live and take a seat alongside the existing elite. As one walks these areas, small glimpses of the incredible niceness of life at the top can be gleaned: a sense of ease, comfort and confidence.

Much of London's housing development has been a process of accommodating dollars, rather than people. Property becomes something to borrow against, buy and trade on an upward rising bubble of prices, fuelled by more speculation and borrowing, and the arrival of many more people from around the world with bundles of cash to spend. In many cases, such homes are bought and lie empty, or are used to store criminal cash as it is laundered or from huge reserves held offshore (around £28 trillion). Today it is estimated that around 42,000 properties in London have been purchased from these sources. the city works hard to position itself as the preferred destination of many of the international super-rich. Yet, simultaneously, this is a city where an estimated 200,000 have lost their homes from the demolition of housing estates.

These aspects of London's apparent success on the world stage give rise to the impression that it is a landscape of riches built on dodgy money, which has done little to contribute to the wider city, except to generate even further rises in house prices. The Guardian and read those 130,000 preventable deaths have been linked to austerity cuts to public services. There is an idea, a sense of how the city should work and what it can deliver, and this notion galvanises and animates many tens of thousands of people who work to ensure that it is protected – because their own pay cheques rely on it.

But many of London's inhabitants are victims of this idea. This includes many graduates, new operators of the banking system sharing a flat to get by and many other well-paid professionals who themselves struggle or see their children floundering in an overpriced housing market.

10. TAX HAVENS LEAKS

10.1 VATICAN LEAKS 2012

Why are they important? That was the first big leaks confirming that the biggest landlord on Earth has been using tax havens extensively to lounder money.

Since 1971 Panama has served as a centre for the President of the Vatican Bank, cardinal Paul Marcinkus laundering Chicago and Italian mafia’s funds. Famous case of Enron also involved 881 offshore branches and companies from which 692 were registered in Cayman Islands (Mara, 2015).

Churches are a very specific example of money laundering. Some church leaders are using the church to acquire worth for themselves without paying any tax to the government. Some church leaders have reality shows and move around the world to deliver motivational and inspirational messages, all in the name of church activity, and avoid the payment of taxes. But professionals who delivered the same motivational and inspirational messages are taxed by the government. Another way the church could be used for money laundering activities is when the criminal who is a church member gives a loan to the church for the construction of a church building. The church then pays off the loan by issuing a cheque to the church members. The cheque will then find itself in the financial system as clean money. Churches with international affiliation could also fuel the money laundering activities. Funds acquired through illegal means could be smuggled across borders to other countries where they have sister churches. The foreign church will either transfer the money back through their bank to the local church or use the funds in its country. When this happens, the money has been washed to look clean (Gyeni-Boateng, 2021).

9.2 LUXEMBOURG LEAKS 2014 (LUXLEAKS)

After receiving data from two whistle-blowers, International Consortium of Investigative Journalism is revealed this financial scandal in November 2014. Its journalists say Luxembourg has one of the most opaque financial systems in the world, and for years it has been a notorious tax haven, accused of being part of an “axis of tax avoidance” in Europe. Leaks revealed Luxembourg's tax rulings set up by PricewaterhouseCoopers from 2002 to 2010 to the benefits of its clients – multinational companies including Disney, Skype, GlaxoSmithKline, Koch Industries and Black & Decker. This investigation resulted in making available to the public tax rulings for over 350 multinational companies based in Luxembourg. The deals — known as “tax rulings” — allowed firms to pay less than 1 percent tax in Luxembourg, however, no multinational company was charged (Bowers, 2019). On top of that, also French newspaper Le Monde managed to scrape the registry's website from Luxembourg and obtain 3.3 million documents, covering over 140,000 companies. It then shared the results with OCCRP (Organized Crime and Corruption Reporting Project) journalists (OPENLUX, 2021).

The LuxLeaks trial took place in spring 2016 and led to the condemnation of the two whistleblowers. The appeal trial's judgment delivered in March 2017 confirmed their condemnation. Following a new appeal, the Luxembourg higher Court rendered in January 2018 a distinct judgment for the two defendants and fully granted the whistleblower status for one of them (BBC, 2018).

From the most important repercissions, in September 2018, the European Commission concluded that Luxembourg did not breached the rules as regards its tax treatment of McDonald's. However, McDonald's didn't wait for the investigations' conclusions and announces in December 2016 the moving of its tax branch from Luxembourg to the United Kingdom. Investigations are also now opened against Amazon in 2014, against GDF-Suez (now Engie) in 2016 and against Ikea in 2017 for their tax schemes in Luxembourg (Robert, Barbière, 2016). Luxembourg's finance minister, Pierre Gramegna, described the leak as "the worst attack" his country had ever experienced. The LuxLeaks raised discussion on tax avoidance in Luxembourg and other countries. After years of pressure from the EU, Luxembourg finally agreed in 2018 to create a database that would reveal the ultimate beneficial owners (UBOs) of all the companies registered within its borders.

"Panama used to be the money laundering capital – now it's London. Panama got its revenge with the Panama Papers, they clearly released names to take revenge against London."

Roberto Saviano, Italian mafia expert

10.3 PANAMA PAPERS 2016

Why are they important? British former Prime Minister's name – David Cameron, appeared. His father, Ian Cameron hired Bahamas residents, including a part-time bishop, to keep offshore company exempt.

The Panama Papers refer to a 2016 leak of 11.5 million of documents, uncovered by the International Consortium of Investigative Journalists (ICIJ), of confidential financial and legal documents from the Panamanian law firm “Mosack Fonseca” which offered corporate services and became one of the largest entities to provide offshore financial services worldwide (Joaristi et al., 2019). Approximately 360,000 businesses and individuals are involved, covering approximately 200 countries, including presidents, diplomats, businessmen, athletes, artists, royal family members, with a focus on the transfer to tax havens. A portion of the company's clients in its 40-year history have used the company for tax avoidance, Money laundering, hiding money from corruption, illegal arms trading, diamonds. All these international relationships are depicted by the International Consortium of Investigative Journalists database with the online address: https://offshoreleaks.icij.org/. To get the better hint of how the company functioned, the Reader might want to watch Steven’s Soderbergh movie “The Laundromat” (2019).

Currently, their offshore leaks database includes 785,000 offshore companies, foundations and trusts from the Panama Papers, the Offshore Leaks, the Bahamas Leaks and the Paradise Papers investigations. Dominguez and Pantoja (2020) constructed a map of top countries involved in offshoring relationships. The novelty of research is based on its graphical visualisation of the core players of money laundering and tax evasion, which are: Atlantic and Pacific islands tax heavens, South-East Asia, India, Russia, Switzerland, the UK, the US and Venezuela, with European Union having the weakest connections. Apart of that, authors found out that the principal individuals related to offshoring entities are corrupt officials, sportspeople, politicians, movie stars and drug dealers. From corporations’ side, tax evasion is mostly used to hide illegal activities, fraud, bribes, market rigging, insider trading, illicit political donations and embezzlement. Research aims to provide consolidated information for the policymakers wanting to tackle tax evasion, corruption and money laundering.

The top jurisdictions involved in Panama Papers are the Bahamas, the British Virgin Islands, the Cayman Islands, China, the Cook Islands, Cyprus, Guernsey, Hong Kong, India, Indonesia, Jersey, Malaysia, Panama, Russia, Samoa, Singapore, Switzerland, Taiwan, Thailand, the United Kingdom, the United States and Venezuela. Interestingly, The British Virgin Islands (BVI) occupies the greater proportion in the representation of the offshoring map, where approximately 113 thousand entities are registered, 1819 of which are linked with Taiwan: then with Singapore, Malaysia, India, Indonesia, Hong Kong and China. BVI constitutes a highly used tax haven due to the existing gaps in its tax and regulatory laws and the facilities it offers in creation of new companies. It can be observed that tax havens are moving to Asia, since the central (larger) cluster is composed mainly of Asian nodes (countries), with the BVI as a central hub. Only four world regions out of thirteen form major offshored operations: Antilles (the largest one), Eastern Asia, Southeast Asia and Oceania. Oceania is a region that mainly receives offshoring operations, approximately 70% in comparison to the emitted operations (30%) (Dominguez and Pantoja, 2020). From The Panama Papers we derive that the offshoring size of regions and the number of offshoring countries has grown and diversified. A second conclusion is that these regions and countries have a different role and importance: the “traditional” tax havens in the Antilles and Central America continue to play a relevant role, however, Switzerland seems to have lost relevance.

10.4 PARADISE PAPERS 2017

Why are they important? Queen’s Elisabeth II name appeared – she hid her money in Cayman Islands and Bermuda.

In 2017, ICIJ published a Paradise Papers – database of 13.4m documents of two offshore companies Apple based in Bermuda and Estera based in Singapore. The records include emails, contracts, bank records of more than 25,000 people-related businesses in 180 countries around the world. They uncover increasingly sophisticated and accounting operations and methods of how huge multinational corporations’ benefit from tax havens, while revealing the links of personal wealth and large corporations to the world leaders.

9.5 FINCEN LEAKS 2020

Why is this important? They confirm that the husband of a Lubov Cherukin who has donated £1.7m to the UK's governing Conservative Party's was secretly funded by a Russian oligarch with close ties to President Putin.

Mrs Chernukhin is the Tories largest female donor. She has given a seven-figure sum to the party and enjoyed a dinner with Theresa May and tennis against Boris Johnson and David Cameron (Mail One, 2020). Her husband Vladimir, who is a PEP – a former deputy economics minister in Vladimir Putin’s government – received $8m (£6.1m). The money came from BVI account of Suleiman Kerimov, a Russian billionaire sanctioned in 2018 by the US Treasury (The Guardian, 2020). The transfer took place on 29 April 2016, two months before the EU referendum vote that led to Brexit.

The FinCEN files are more than 2,657 documents and 2,121 SARs, most of which were files that banks sent to the US authorities between 2000 and 2017. They raise concerns about what their clients might be doing. Leaked documents involved $2tn of transactions have revealed how some of the world's biggest banks have allowed criminals to move dirty money around the world (BBC, 2020).

They confirm that Russian oligarchs have used Western banks to avoid US and EU sanctions that were supposed to stop them getting their money into the West. Evidence that one of Russian President Vladimir Putin's closest associates used Barclays bank in London to avoid sanctions which were meant to stop him using financial services in the West. Some of the cash was used to buy works of art.

They state that The UK is called a "higher risk jurisdiction" and compared to Cyprus, by the intelligence division of FinCEN. That's because of the number of UK registered companies that appear in the SARs. Over 3,000 UK companies are named in the FinCEN files - more than any other country.

They were mostly released by a Standard Chartered whistle-blower, its former executive Julian Knight. Knight claims he was forced out of Standard Chartered Bank (SCB) after raising the alarm about client companies suspected of helping Iran to sidestep US sanctions. Therefore, he provided US investigators with a list of SCB clients, which he suspected were fronts for the Iranian military and its nuclear programme. A whistle-blower, who is also a former RAF pilot, now points out that many of the firms on his original list have cropped up on the FinCEN leak despite Standard Chartered rubbishing his claims. He said: “The FinCEN leak vindicates our case because it has disclosed many of the same sanctioned and sanctionable companies that I disclosed to US investigators.” (Cahill & Luck, 2020).

11. THE FATE OF TAX HAVENS

In 2019 in group of non-cooperating tax jurisdictions there were 8 countries: American Samoa, Fiji, Guam, Oman, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu. In February 2020 four other states have been included in the blacklist: Cayman Islands, Palau, Panama and Seychelles. In 2021 neither on EU nor OECD’s list of non-cooperative jurisdictions there is any British overseas territory (European Council, 2021).

Close to 40% of multinational profits are shifted to tax havens globally. If all countries adopted the same effective corporate tax rate, keeping global profits and investment constant. Profits would increase by about 15% in high-tax European Union countries, 10% in the United States, while they would fall by 60% in today's tax havens (Tørsløv, Wier and Zucman). In past decades, politicians in Germany, the United States, and elsewhere have clashed with Switzerland over banking secrecy, with little success. In 2008, however, after discovering that Swiss bankers had helped US clients evade tax, the Department of Justice took a different tack: it targeted not the country, but its bankers and banks. In response, the embattled private players became major lobbyists for reform, and Switzerland soon made major concessions on banking secrecy for the first time. The lesson: any effective international response must include strong sanctions against the private enablers, including accountants and lawyers, especially when they facilitate criminal activity such as tax evasion (Shaxson, 2019).

The system is really protecting the people that are having a benefit from it, in percentage that is very few individuals. The only thing that Panama Papers Committee is seeing as a solution is to have an open, publicly accessible register of all the offshore assets and trusts beneficiaries in a shape of Norwegian tax information.

In response to these ICIJ publications, 300 world economists from more than 30 countries around the world have declared that tax havens distort the functioning of the world economy. The negative consequences of tax havens existence are much wider, they include:

Economic consequences and threats: decrease in revenues to the domestic budgets; the lack of funds to finance the needs of the state – for education, health, (hospitals, prevention of diseases and epidemics, fight against pandemics); the lack of funds for the public sector, environmental protection, development programs, support for science, research and development, business support and job creation etc.

Social consequences and threats: deepen inequalities between individuals and economic actors in the economic and social context, as well as increasing inequalities in opportunities to learn, live and work in dignity; the increase in poverty and the resulting consequences of low levels of education and disease prevention, increased frustration of the population, growth in crime in society; decrease of legal awareness of the population.

Security implications and threats: the loss of transparency in the financial sector increases the risk of using funds for crime with negative social consequences, for terrorism and for threats to human security.

Political and social consequences and threat: the lack of transparency of national and national public finances makes it possible to link business and investment funds (net money) with funds from crime (money laundering), linking with world politics threatens the democratic foundations of states in the world, linking financial power and political power and non-transparency allow to misuse and threaten the foundations of democracy.

Humanitarian consequences - humanitarian disasters: according to the world's leading economists, the existence of tax havens is literally a tragedy for developing countries.

"Europe has given up trying to control its capital – even clean money. Brexit is one of the examples of this – it's fed off a desire to make Great Britain an off-shore haven."

Roberto Saviano, Italian mafia expert

12. CONCLUSION

Modern tax havens are still largely organized in three groups. First and still by far the largest is made up of the UK-based or British Empire-based tax havens. Centered on the City of London and fed by the Euromarket, it consists of the Crown Dependencies, Overseas Territories and Pacific atolls. The second consists of European havens, more specialized as headquarter centers, financial affiliates, and private banking. The third consist of a disparate group of either emulators, such as Panama, Uruguay, or Dubai, or new havens from the transition economies and Africa.

The Cayman Islands, a British Overseas Territory, is the single biggest contributor of all offshore jurisdictions to other countries' tax-avoidance losses.

They are quintessentially colonial and imperial institutions: the uneven effects of tax-haven activity are in many ways a legacy of the era of decolonisation, to which the rise and proliferation of tax havens is intimately linked.

People everywhere have long invented ways to get around paying taxes, tariffs and other levies imposed on them, be it through smuggling, cheating or outright tax revolts. However, it was the introduction of more widely applied income taxes in the late XIXth and early XXth centuries that prompted the emergence of tax havens as an institutionalised form of evasion.

They appeared on a moderate scale in the final decades of the 19th century in certain Swiss cantons and US states, but it wasn't until the 1920s and 1930s that progressive income taxes raised during and after the First World War led to a significant expansion of tax havens. Wealthy individuals and companies immediately sought to evade the steeper tax rates. It was in these interwar years that the tax havens of Switzerland and the British Crown Dependencies of the Channel Islands – Jersey and Guernsey – began to cater to a growing clientele.

The second era of significant tax-haven expansion followed the World War II, London Euro-Dollar policy and allowing City of London, as an independent jurisdiction within the country of United Kingdom, to make their own banking law. In the 1950s', as the British Empire collapsed and African colonies started to declare independence, London's lawyers and bankers fanned out in force to expand tax-dodging opportunities, or to create new ones in places such as Hong Kong, Singapore, the Bahamas, Bermuda, the Cayman Islands and the British Virgin Islands.

All these islands were to replace withdrawing military might and economic profits that used to be enjoyed from it. After decades of coercive and violent European conquest and colonialism, European elites feared that vengeful new leaders might impose taxes and restrictions on their business activity, investments and capital movements after independence. In the worts case scenario, they feared the new leadership could expropriate and nationalise European property without compensating its former owners.

Therefore, the growth phase of the 1950s and 1960s was arguably the most important in making the system of tax havens what it is today. It started from Cayman Islands. These decades saw the geographic scope of the offshore world grow dramatically, as well as the full evolution of the typical cast of actors populating tax havens: the lawyers, bankers, accountants and political elites connecting these locations to global financial centres and clients around the world.

Today tax havens now span the entire world, serving all the major financial and commercial centers.

It is neither in the United Kingdom interest nor in its plans to resign or diminish its overseas tax role in global financial system, as this is the sole reason why this country thrives despite its decreased industrial production. The aim to continue being such a powerful shadow financial player has been the main reason behind City of London lobbying for Brexit. Leaving European Union is the sole guarantor that Britain will not have to obey UE financial regulations, anti-money laundering monitoring and anti-Bank Secrecy Acts.

Financialization of the world has two far-reaching effects: direct Brexit and indirect – "eruption" of the far right. Brexit is a direct attempt to preserve the untouched status of London as a financial centre of international flow of illicit money. As Sir Jim Ratcliffe, the UK's richest person and high-profile Brexiter, who has just quitted

Britain for tax-free Monaco, said about Britain's privileged position in Brexit negotiations "London is one of the two key financial centres, and that isn't going to change" (Neate 2020). The rise of far right in European countries and the US seems to escalate after the 2008 crisis connected to the drop in real wage and shortened employmeny possibilities of young people. The shock of economic collapse was so great that the fruits of psychological consequences can be seen today. They exhibit themselves in phenomenons like ”proud boys” in the US, ”Odin's soldiers” in Finland or ”ONR”, ”Młodzież wszechpolska” or ”Konfederacja” the political party in Poland uniting aggressive, often psychopathic young males, terrorizing their own country's people. With a closer look these young males are still often economically dependent on their parents, less mobile and much more indebted than their parents generation (Bialik, 2019).

From the other hand it can be also said that the super-rich colonized Britain and found themselves an eager country providing space for them at the expense of their own population.

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